

Attachment A

New and Amended Rule Text

New language is underlined; deletions are in brackets.

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FINRA Rules

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3100. SUPERVISORY RESPONSIBILITIES

3110. Supervision

(a) through (f) No Change.

••• **Supplementary Material:** -----

.01 through .17 No Change.

.18 Remote Inspections Pilot Program

(a) Scope. This Supplementary Material establishes a Remote Inspections Pilot Program with respect to the required inspection of OSJs, branch offices and non-branch locations pursuant to, as applicable, paragraphs (c)(1)(A), (B) and (C) under Rule 3110. The Remote Inspections Pilot Program shall cover required inspections of such offices or locations for a period of three years starting on July 1, 2024 ("pilot period"), and such pilot period shall expire on June 30, 2027. If the pilot period is not extended or Rule 3110.18, as may be amended, is not approved as permanent by the Commission, this Supplementary Material will automatically sunset on June 30, 2027. Members will not be able to participate in the Remote Inspections Pilot Program after such date.

(b) Risk Assessment

(1) Standards for Reasonable Review. Subject to paragraphs (c), (f) and (g) of this Supplementary Material, each member obligated to conduct an inspection of an office or location pursuant to, as applicable, paragraphs (c)(1)(A), (B) and (C) under Rule 3110 may, subject to the requirements of this Rule 3110.18, elect to conduct the applicable inspection remotely, without necessarily an on-site visit for an office or location, when the member reasonably determines that the purposes of this Supplementary Material can be accomplished by conducting such required inspection remotely. Prior to electing a remote inspection for an office or location, rather than an on-site inspection, the firm must develop a reasonable risk-based approach to using remote inspections, and conduct and document a risk assessment for that office or location. The assessment must document the factors considered, including the factors set forth in Rule 3110.12 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. A member or its office or location that is ineligible for remote inspections because of either paragraphs (f) or (g) of this Supplementary Material must conduct an on-site inspection of that office or location on the applicable mandatory schedule under Rule 3110(c)(1). Notwithstanding Rule 3110.18, a member shall remain subject to the other requirements of Rule 3110(c).

(2) Other Factors to Consider for Risk Assessment. In addition to the requirements under paragraph (b)(1) of this Supplementary Material, a member shall 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: (A) the volume and nature of customer complaints; (B) the volume and nature of outside business activities, particularly investment-related; (C) the volume and complexity of products offered; (D) the nature of the customer base, including vulnerable adult investors; (E) whether associated persons are subject to heightened supervision; (F) failures by associated persons to comply with the member's written supervisory procedures; and (G) any recordkeeping violations. In addition, consistent with Rule 3110.12, members should conduct on-site inspections or make more frequent use of unannounced, on-site inspections for high-risk offices or locations or where there are indicators of irregularities or misconduct (i.e., "red flags"). Moreover, consistent with Rule 3110(a), the member's supervisory system must take into consideration any red flags when determining whether to conduct a remote inspection of an office or location.

(c) Written Supervisory Procedures for Remote Inspections. Consistent with a member's obligation under Rule 3110(b), a member that elects to participate in the Remote Inspections 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 rules. Reasonably designed procedures for conducting remote inspections of offices or locations must address, among other things: (1) the methodology, including technology, that may be used to conduct remote inspections; (2) the factors considered in the risk assessment made for each applicable office or location pursuant to paragraph (b) of this Supplementary Material; (3) the procedures specified in paragraph (h)(1)(G) and (h)(4) of this Supplementary Material;

and (4) 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 rules.

(d) 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 maintain 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 "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.

(e) Documentation Requirement. A member must maintain and preserve a centralized record for each of the Pilot Years specified in this Remote Inspections Pilot Program that separately identifies: (1) all offices or locations that were inspected remotely; and (2) any offices or locations for which the member determined to impose additional supervisory procedures or more frequent monitoring, as provided in paragraph (d) of this Supplementary Material. 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.

(f) Firm Level Requirements

(1) Firm Level Ineligibility Criteria

A member shall not be eligible to conduct remote inspections of any of its offices or locations in accordance with this Supplementary Material if any time during the pilot period the member:

(A) is or becomes designated as Restricted Firm under Rule 4111;

(B) is or becomes designated as a Taping Firm under Rule 3170;

(C) receives a notice from FINRA pursuant to Rule 9557 regarding compliance with Rule 4110 (Capital Compliance), Rule 4120 (Regulatory Notification and Business Curtailment) or Rule 4130 (Regulation of Activities of Section 15C Members Experiencing Financial and/or Operational Difficulties);

(D) is or becomes suspended from membership by FINRA;

(E) based on the date in the Central Registration Depository (CRD), had its FINRA membership become effective within the prior 12 months; or

(F) is or has been found within the past three years by the SEC or FINRA to have violated Rule 3110(c) (Internal Inspections).

(2) Firm Level Conditions

As part of the requirements in paragraph (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, the member must satisfy the following conditions:

(A) Recordkeeping System

The member must have a recordkeeping system:

(i) to make and keep current, and preserve records required to be made and kept current, and preserved under applicable securities laws and regulations, FINRA rules, and the member's own written supervisory procedures under Rule 3110;

(ii) such records are not physically or electronically maintained and preserved at the office or location subject to the remote inspection; and

(iii) the member has prompt access to such records; and

(B) Surveillance and Technology Tools

The member must determine that its surveillance and technology tools are appropriate to supervise the types of risks presented by each such remotely supervised office or location. These tools may include but are not limited to:

(i) 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;

(ii) 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); and

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

(g) Location Level Requirements

(1) Location Level Ineligibility Criteria

Subject to paragraph (f) of this Supplementary Material, a member's office or location shall not be eligible for a remote inspection in accordance with this Supplementary Material if at any time during the pilot period:

(A) 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 or a state regulatory agency;

(B) 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 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 this Supplementary Material or otherwise as a condition to approval or permission for such association;

(C) the firm is or becomes subject to Rule 1017(a)(7) as a result of one or more associated persons at such office or location;

(D) 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;

(E) 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 Rule 4530(a)(2);

(F) 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; or

(G) the office or location handles customer funds or securities.

(2) Location Level Conditions

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 for each office or location in accordance with paragraph (b) of this Supplementary Material, a specific office or location of the member must also satisfy the following conditions:

(A) electronic communications (e.g., e-mail) are made through the member's electronic system;

(B) the associated person's correspondence and communications with the public are subject to the firm's supervision in accordance with Rule 3110; and

(C) no books or records of the member required to be made and kept current, and preserved under applicable securities laws and regulations, FINRA rules and the member's own written supervisory

procedures under Rule 3110 are physically or electronically maintained and preserved at such office or location.

(h) Data and Information Collection Requirement

(1) Data and Information. A member that elects to participate in the Remote Inspections Pilot Program shall collect the following data and information and provide such data and information to FINRA, on a quarterly basis, and in the manner and format determined by FINRA. For the items referenced in paragraphs (h)(1)(A) through (F) of this Supplementary Material, a member shall provide separate counts for OSJs, supervisory branch offices, non-supervisory branch offices, and non-branch locations consistent with paragraphs (c)(1)(A), (B) and (C) under Rule 3110. For purposes of this paragraph, the term "finding" means a discovery made during an inspection that led to a remedial action or was listed on the member's inspection report:

(A) number of offices and locations with an inspection completed during each calendar quarter;

(B) number of offices and locations in paragraph (h)(1)(A) that were inspected remotely;

(C) number of offices and locations in paragraph (h)(1)(A) that were inspected on-site;

(D) number of offices and locations in paragraph (h)(1)(C) that were inspected on-site because of a finding;

(E) number of offices and locations in paragraph (h)(1)(B) where findings were identified, the number of those findings and a list of the significant findings;

(F) number of offices and locations in paragraph (h)(1)(C) where findings were identified, the number of those findings and a list of the significant findings; and

(G) requirements of the written supervisory procedures for Remote Inspections in each of the four areas below. This information should be provided with the first delivery of data made pursuant to this paragraph, and thereafter with the first delivery of such data made after any amendments to the written supervisory procedures for Remote Inspections:

(i) procedures for escalating significant findings;

(ii) procedures for new hires;

(iii) procedures for supervising brokers with a significant history of misconduct; and

(iv) procedures related to outside business activities

(OBAs) and doing business as (DBA) designations.

(2) Additional Data and Information for Pilot Year 1, if Less Than Full Calendar Year. In addition to the information set forth in paragraph (h)(1) of this Supplementary Material, if Pilot Year 1 covers a period that is less than a full calendar year, a member that elects to participate in the Remote Inspections Pilot Program shall collect the following data and information and provide such

data and information to FINRA no later than December 31 of such first Pilot Year in the manner and format determined by FINRA. For the items referenced in paragraphs (h)(2)(A) through (E) of this Supplementary Material, a member shall provide separate counts for OSJs, supervisory branch offices, non-supervisory branch offices, and non-branch locations consistent with paragraphs (c)(1)(A), (B) and (C) under Rule 3110:

(A) the number of offices and locations with an inspection completed between January 1 of Pilot Year 1 and the day before the effective date of the Remote Inspections Pilot Program;

(B) the number of offices and locations in paragraph (h)(2)(A) that were inspected remotely between January 1 of Pilot Year 1 and the day before the effective date of the Remote Inspections Pilot Program;

(C) the number of offices and locations in paragraph (h)(2)(A) that were inspected on-site between January 1 of Pilot Year 1 and the day before the effective date of the Remote Inspections Pilot Program;

(D) the number of offices and locations in paragraph (h)(2)(B) where findings were identified, the number of those findings and a list of the significant findings; and

(E) the number of offices and locations in paragraph (h)(2)(C) where findings were identified, the number of those findings and a list of the significant findings.

(3) Additional Data and Information for Calendar Year 2019. In

addition to the information set forth in paragraphs (h)(1) and (h)(2) of this

Supplementary Material, for calendar year 2019, a member that elects to participate in the Remote Inspections Pilot Program shall act in good faith using best efforts to collect the following data and information and provide such data and information to FINRA no later than December 31 of Pilot Year 1 in the manner and format determined by FINRA. For the items referenced in paragraphs (h)(3)(A) and (B) of this Supplementary Material, a member shall provide separate counts for OSJs, supervisory branch offices, non-supervisory branch offices, and non-branch locations consistent with paragraphs (c)(1)(A), (B) and (C) under Rule 3110:

(A) the number of offices and locations with an inspection completed during calendar year 2019; and

(B) the number of offices and locations referenced in paragraph (h)(3)(A) where findings were identified, the number of those findings and a list of the significant findings.

(4) Written Policies and Procedures. A member shall establish, maintain and enforce written policies and procedures that are reasonably designed to comply with the data and information collection, and transmission requirements of paragraph (h) of this Supplementary Material.

(i) Election to Participate in Remote Inspections Pilot Program. A member that elects to participate in the Remote Inspections Pilot Program for any Pilot Year shall, at least five calendar days before the beginning of such Pilot Year, provide FINRA an "opt-in notice" in the manner and format determined by FINRA. By providing such opt-in notice to FINRA, the member agrees to participate in the Remote Inspections Pilot

Program for the duration of such Pilot Year and to comply with the requirements of Rule 3110.18. A member that provides an opt-in notice for a Pilot Year shall be automatically deemed to have elected and agreed to participate in the Remote Inspections Pilot Program for subsequent Pilot Years until the Remote Inspections Pilot Program expires. A 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 a "opt-out notice" in the manner and format determined by FINRA. FINRA may, in exceptional cases and where good cause is shown, waive the applicable timeframes for the required opt-in or opt-out notices.

(j) Failure to Satisfy Conditions. A member that fails to satisfy the conditions of Rule 3110.18, including the requirement to timely collect and submit the data and information to FINRA as set forth in paragraph (h) of this Supplementary Material, shall be ineligible to participate in the Remote Inspections Pilot Program and must conduct on-site inspections of each office and location on the required cycle in accordance with Rule 3110(c).

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

(l) Definitions. For purposes of this Supplementary Material, the term "Pilot Year" shall mean the following:

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

(2) Pilot Year 2 means the calendar year period following Pilot Year 1, beginning on January 1 and ending on December 31;

(3) Pilot Year 3 means the calendar year period following Pilot Year 2, beginning on January 1 and ending on December 31; and

(4) 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.

(m) Sunset of Rule 3110.17. If Rule 3110.17 has not already expired by its own terms, Rule 3110.17 will automatically sunset on June 30, 2024.

.19 Residential Supervisory Location

(a) Conditions for Designation as a Residential Supervisory Location (RSL).

Notwithstanding any other provisions of Rule 3110(f) and subject to paragraphs (b), (c) and (d) of this Supplementary Material, a location that is the associated person's private residence where supervisory activities are conducted, including those described in Rule 3110(f)(1)(D) through (G) or in Rule 3110(f)(2)(B), shall be considered for those activities 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 Rule 3110(f)(2)(A)(ii) or (iii);

(5) neither customer funds nor securities are handled at that location;

(6) 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;

(7) the associated person's correspondence and communications with the public are subject to the firm's supervision in accordance with this Rule;

(8) the associated person's electronic communications (e.g., e-mail) are made through the member's electronic system;

(9)(A) 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, FINRA rules, and the member's own written supervisory procedures under Rule 3110; (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; and

(10) 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.

(b) Member Firm Ineligibility Criteria. A member shall not be eligible to designate an office or location as an RSL in accordance with Rule 3110.19 if the member:

(1) is currently designated as a Restricted Firm under Rule 4111;

(2) is currently designated as a Taping Firm under Rule 3170;

(3) is currently undergoing, or is required to undergo, a review under Rule 1017(a)(7) as a result of one or more associated persons at such location;

(4) receives a notice from FINRA pursuant to Rule 9557 (Procedures for Regulating Activities under Rule 4110 (Capital Compliance), Rule 4120

(Regulatory Notification and Business Curtailment) or Rule 4130 (Regulation of Activities of Section 15C Members Experiencing Financial and/or Operational

Difficulties)), unless FINRA has otherwise permitted activities in writing pursuant to such rule;

(5) is or becomes suspended by FINRA;

(6) based on the date in the Central Registration Depository (CRD), had its FINRA membership become effective within the prior 12 months; or

(7) is or has been found within the past three years by the SEC or FINRA to have violated Rule 3110(c).

(c) Location Ineligibility Criteria. An office or location shall not be eligible for designation as an RSL in accordance with Rule 3110.19 if one or more associated persons at such office or location:

(1) 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;

(2) is functioning as a principal for a limited period in accordance with Rule 1210.04;

(3) is subject to a mandatory heightened supervisory plan under the rules of the SEC, FINRA or state regulatory agency;

(4) is statutorily disqualified, unless such disqualified person has been approved (or is otherwise permitted pursuant to FINRA 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 this Supplementary Material or otherwise as a condition to approval or permission for such association;

(5) 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; 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 (Uniform Application for Securities Industry Registration or Transfer), by the SEC, a self-regulatory organization, including FINRA, 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 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 MSRB or other self-regulatory organization, including FINRA; provided, however, 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 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.

(d) Obligation to Provide List of RSLs to FINRA. A member that elects to designate any office or location of the member as an RSL pursuant to this Supplementary Material shall provide FINRA with 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 FINRA may prescribe.

(e) Risk Assessment. Subject to the requirements of this Supplementary Material, prior to designating an office or location as an RSL, the member 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 assigned to that office or location. The assessment must document the factors considered, including among others, whether the 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 member's written supervisory procedures; (4) any recordkeeping violation; and (5) 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 Rule 3110(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 this Supplementary Material and the member should consider evidencing steps taken to address those red flags where appropriate.

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