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VIA ELECTRONIC DELIVERY (pubcom@finra.org)

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1700 K Street, NW
Washington, DC 20006

RE: Regulatory Notice 25-07: FINRA Requests Comment on Modernizing FINRA Rules, Guidance, and Processes for the Organization and Operation of Member Workplaces (Apr. 14, 2025)

Dear Ms. Mitchell:

Two Sigma Securities, LLC (“TSS” or the “Firm”)¹ appreciates the opportunity to respond to the above-referenced Request for Comment. We applaud FINRA’s engagement with its members and other market participants to ensure that FINRA rules, guidance and processes evolve at a pace, and in a manner, commensurate with technological advancements, particularly those driving the modernization of the FINRA member workplace. TSS provides the following comments for FINRA’s consideration regarding “Branch Offices and Hybrid Work” discussed in Section A of Regulatory Notice 25-07.²

The use of technology in trading and market making activities (as well as in the supervision of those activities) is no longer optional, but rather, integral. Indeed, many member firms conduct trading and market making activities primarily using electronic trading and communication systems, such that the trading activities and communications of the firm’s associated persons are subject to centralized electronic monitoring, surveillance and supervision, regardless of where their associated persons are located. As a result, the modernization of FINRA’s rules, procedures and processes in relation to branch office supervision is essential, given the prominence of technology in how business is conducted, monitored and supervised.

In fact, nothing supports this reality more than the COVID pandemic. It is the broad integration of technology that enabled member firms to seamlessly transition to fully remote operations during the pandemic with minimal necessitated changes to their operational processes, policies and procedures.

¹ TSS is a FINRA member broker-dealer that engages in electronic market making, agency facilitation and/or proprietary trading activities. The vast majority of trading activity is fully automated with minimal human intervention. Orders are received via electronic methods and supervision of such activity is done via electronic tools and reports. As a result of the Firm’s business model, the trading activities and communications of the Firm’s employees are subject to centralized electronic surveillance and supervision, regardless of the employee’s location.

² Regulatory Notice 25-07: FINRA Requests Comment on Modernizing FINRA Rules, Guidance, and Processes for the Organization and Operation of Member Workplaces (Apr. 14, 2025), see <https://www.finra.org/rules-guidance/notices/25-07>.



Firms continue to find that hybrid work arrangements are completely effective from a business and regulatory perspective.

TSS is requesting that FINRA consider modernization in two specific areas: (1) expansion of the primary residence exemption in the branch office definition (Rule 3110(f)(2)(A)(ii)) to the OSJ definition (Rule 3110(f)(1)) so that the exemption also applies, from an OSJ perspective, to primary residences where the associated person is engaged in order execution and/or market making (with no direct contact with public customers or other interactions that raise investor protection concerns); and (2) (i) extension of the Remote Inspections Pilot Program reflected in Rule 3110.18 (the “Pilot Program”); and (ii) removal of the Location Level Ineligibility Criteria reflected in Rule 3110.18(g)(1)(F) thereby permitting remote inspections of residential locations in which associated persons are engaged in proprietary trading.

As reflected in Rule 3110(f)(2)(A), a branch office is “any location where one or more associated persons of a member regularly conducts the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of, any security, or is held out as such.” Rule 3110(f)(2)(A)(ii) reflects the primary residence exemption which states that any “location that is the associated person’s primary residence” is excluded from the definition of a branch office provided that the conditions in subsections (a) through (i) are satisfied.

As a result, currently, the definitions of an OSJ and branch office under Rule 3110 require that a primary residence used on a hybrid basis that would normally be completely exempt from the branch office definition under the primary residence exception be registered as an OSJ on Form BR and subject to annual inspections and numerous other regulatory filings and administrative obligations. This is the case simply because the associated person is authorized to engage in market making or order execution activities in that location, even if the firm has no public customers and the activity is entirely conducted through electronic methods.

TSS requests that FINRA revise Rule 3110(f)(1) (the definition of an OSJ) to include the primary residence exemption reflected in Rule 3110(f)(2)(A)(ii) (the primary residence exemption in the branch office definition). This would result in increased clarity and consistency in the OSJ and branch office definitions. Importantly, such a change would introduce consistency by recognizing that home office locations that satisfy the enumerated factors in (a)-(i) of the branch office definition do not implicate any of the additional risks or investor protection concerns that the OSJ framework was intended to address.

Turning to inspections, with the adoption of FINRA Rule 3110.18 in July 2024, FINRA established a voluntary, three-year Pilot Program that permits eligible member firms to fulfill their inspection obligations under FINRA Rule 3110 (c)(1) through remote means, without conducting on-site visits. The Pilot Program is set to expire on June 30, 2027. TSS requests that FINRA allow Rule 3110.18 to remain in effect indefinitely. Remote inspections support a modern approach to supervision and enable



member firms to structure their branch inspection programs in a thorough, efficient and cost-effective manner.

Additionally, TSS requests that FINRA consider the removal of the Location Level Ineligibility Criteria reflected in Rule 3110.18(g)(1)(F) thereby permitting remote inspections of residential locations in which associated persons are engaged in proprietary trading, including the incidental crossing of customer orders or direct supervision, where the nature of the activity and personnel does not warrant an onsite inspection. The Pilot Program already permits firms to make a risk-based determination regarding its ability to remotely inspect an office. TSS believes that this should be extended to locations that engage in proprietary trading. The mere fact that a location engages in proprietary transactions does not necessarily make it a high-risk activity, especially when that activity is conducted electronically and effectively surveilled and monitored by central supervisory systems. Firms should be given the latitude to develop supervisory processes based upon the risks of their business, which will then be reviewed by FINRA through the routine examination process.³

TSS appreciates the opportunity to comment on this critical initiative. As emerging financial technologies continue to transform the financial services landscape, we believe there is significant potential to enhance regulatory effectiveness, promote efficiency and strengthen investor protection. We look forward to ongoing collaboration in support of a strong and well-functioning marketplace.

Respectfully submitted,

A handwritten signature in black ink that reads "Carl Vallese".

Carl Vallese
Chief Compliance Officer

³ FINRA might also consider allowing firms to take a risk-based approach to the inspections of non-branch locations used by associated persons as part of hybrid work arrangements, in lieu of the requirement to “inspect on a regular periodic schedule every non-branch location” under Rule 3110(c)(1)(C). This flexibility would help reduce administrative burdens and better ensure that a firm’s compliance and supervisory resources are used effectively.