



**FINANCIAL
SERVICES
INSTITUTE**

VOICE OF INDEPENDENT
FINANCIAL SERVICES
FIRMS AND INDEPENDENT
FINANCIAL ADVISORS

VIA EMAIL

June 11, 2025

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1700 K Street, NW
Washington, DC 20006-1506

Re: FINRA Regulatory Notice 25-04 (FINRA Requests Comment on Review to Modernize Rules Regarding Member Firms and Associated Persons)

Dear Ms. Mitchell:

On March 12, 2025, the Financial Industry Regulatory Authority (FINRA) issued Regulatory Notice 25-04 to request comment on its review to modernize its rules.¹ The Financial Services Institute (FSI) commends FINRA for undertaking this initiative to broadly review its rules with modernization in mind, particularly its focus on potential updates to its rules and regulatory approaches in light of non-FINRA requirements applicable to members. FSI appreciates the opportunity to comment on this important proposal. We support a review of FINRA's rules and regulatory approaches in light of broader industry developments, such as the SEC Regulation Best Interest (Reg BI) and the SEC's Marketing Rule. In addition, this initiative to modernize FINRA's rules is important because of technological advancements and evolving industry business models and practices. FSI offers select comments in this letter and will offer additional comments more specifically tied to workplace modernization in response to Regulatory Notice 25-07. FSI's comments are informed by the perspective of dually registered firms, while also addressing several additional areas that may benefit from modernization.

Background on FSI Members

The independent financial services community has been an important and active part of the lives of American investors for more than 40 years. In the US, there are more than 152,000 independent financial advisors.² These financial advisors are self-employed independent contractors, rather than employees of the Independent Broker-Dealers (IBD).³

FSI's IBD member firms provide business support to independent financial advisors in addition to supervising their business practices and arranging for the execution and clearing of customer transactions. Independent financial advisors are small-business owners and job creators

¹ FINRA, Regulatory Notice 25-04, *FINRA Launches Broad Review to Modernize Rules Regarding Member Firms and Associated Persons* (Mar. 12, 2025), <https://www.finra.org/rules-guidance/notices/25-04>

² Tiburon Strategic Advisors, *Research on Independent Advisors* (Dec. 18, 2024) (citing 152,200 in 2023).

³ The use of the term "financial advisor" or "advisor" in this letter is a reference to an individual who is a registered representative of a broker-dealer and an investment adviser representative of a registered investment adviser firm, or a dual registrant.

with strong ties to their communities. These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations, and retirement plans. Their services include financial education, planning, implementation, and investment monitoring. Due to their unique business model, FSI member firms and their affiliated financial advisors are especially well positioned to provide Main Street Americans with the affordable financial advice, products, and services necessary to achieve their investment goals.

FSI members make substantial contributions to our nation's economy. According to Oxford Economics, FSI members nationwide generate \$35.7 billion in economic activity. This activity, in turn, supports 408,743 jobs including direct employees, those employed in the FSI supply chain, and those supported in the broader economy. In addition, FSI members contribute nearly \$7.2 billion annually to federal, state, and local government taxes.⁴

Discussion

I. Rule Modernization Presents Opportunity for Better Aligned Rules for Dual Registrants

FSI appreciates the opportunity to comment, as FINRA's review presents an opportunity to better harmonize broker-dealer (BD) and investment adviser (RIA) regulations, an issue particularly important to dual registrants. FINRA's review is timely given that many of its rules derive from a time when BD and RIA care obligations were less aligned and broker-dealer and advisory businesses were largely separate. Given the realities of today's broker-dealer business, FSI encourages greater consistency between BD and RIA standards to reduce operational complexity, including in areas such as advertising, supervision, and recordkeeping.

A. Advertising Regulations

Given that the SEC's Marketing Rule has been in full effect since 2022, this is a beneficial time for FINRA to review its advertising rules with an eye toward regulatory modernization, increased adoption of a principles-based approach, and the reduction of burdens and regulatory complexity for dually registered firms. One example is FINRA regulatory guidance that stems from 1998 in the form of an interpretive letter to Dawn Bond at FSC Securities.⁵ This letter clarified FINRA's regulatory expectations for certain advisory activity of registered persons under FINRA's advertising and communications rules. In doing so, many dual registrants face additional advertising review for communications geared toward advisory services. With the SEC's Marketing Rule in place, this is one example of an area where FINRA should review and modernize its advertising and communications guidance. FINRA should reconsider its approach under this guidance and likely narrow the scope so that communications for advisory services are not subsumed into BD communications covered by FINRA advertising and communications rules and reviews. FSI also encourages FINRA to explore principles-based frameworks to further modernize its advertising and communications rules, facilitate a risk-based approach to required advertising reviews and approvals, and identify opportunities to harmonize with the SEC's Marketing Rule to promote regulatory consistency.

⁴ Oxford Economics for the Financial Services Institute, The Economic Impact of FSI's Members (2020).

⁵ FINRA Interpretive Letter from Dawn M. Bond, FSC Securities Corporation (Dec. 6, 2007), <https://www.finra.org/rules-guidance/guidance/interpretive-letters/dawn-bond-fsc-securities-corporation>.

B. Books and Records Requirements

FINRA should work with the SEC and collaborate with the industry to modernize books and records requirements. Lawmakers and regulators established books and records requirements during a time when communication methods and technologies were vastly different from those used by firms and investors today.⁶ For example, historical communications methods (for both internal and external communications) include internal memos, mail/letters, email, phone logs, and faxes. While books and records rules and related regulatory guidance have sought to keep pace with technological development, the Covid and post-Covid era accelerated the adoption of modern communication tools, including widespread use of smartphones, text messaging, and video conferencing.⁷ Investors expect those in the financial services industry to use modern technologies to facilitate convenient and rapid communication.

Financial services firms also seek to use new technologies for both communications and data storage. Technologies like Slack, Microsoft Teams, and Zoom can promote efficient communication in the workplace. Overly burdensome requirements may inhibit firms' ability to adopt innovative technologies to communicate. In addition, rules should not unintentionally restrict or discourage the use of modern retention and storage technologies that enable efficient, economical, and secure record preservation.

In addition, FINRA should review other areas of its rulebook that require the creation and retention of certain records (e.g., FINRA Rules 2210, 4512, and 2232) to determine whether there are opportunities for simplification and consolidation. FINRA should also explore opportunities to align its requirements with those covering registered investment advisers. FSI encourages regulators to work with the industry to examine whether the books and records requirements can be better tailored to the modern world.

C. Supervision Obligations

FSI encourages FINRA to consider revising its supervisory rules to adopt a more principles-based approach and review the possibility of aligning obligations under those rules to the supervisory framework applicable to registered investment advisers. FSI encourages FINRA to review FINRA Rules 3110, 3120, 3130, collectively, to determine whether they can be streamlined and structured to better align them with those governing registered investment advisers. For example, certain obligations, such as the annual testing requirement, impose additional compliance obligations on BDs. In addition, FINRA should review other areas of its rulebook that specifically address supervision, such as Rule 2330, to determine their necessity and explore streamlining opportunities with Rules 3110-3130. More generally, a principles-based supervisory framework allows firms to tailor their compliance programs based on their specific business models and risk profiles, promoting more effective and efficient supervision. Such an approach would enable firms to allocate resources more strategically, enhancing overall compliance and investor protection.

⁶ See generally, SEC Rules 17a-3 (Records to Be Made) and 17a-4 (Records to Be Preserved) under the Securities Exchange Act of 1934 and FINRA Rule 4511.

⁷ See generally, Monica Anderson & Madison Fox, *Share of Those 65 and Older Who Are Tech Users Has Grown in the Past Decade*, PEW RSCH. CTR. (Jan. 13, 2022), <https://www.pewresearch.org/short-reads/2022/01/13/share-of-those-65-and-older-who-are-tech-users-has-grown-in-the-past-decade/>.

II. Additional Areas for Consideration: Form U4, Electronic Delivery, and Gift Limits

A. Form U4

FSI encourages FINRA to review rules and instructions on disclosing customer complaints on Form U4 with the goal of fairness and accuracy. Current rules require disclosure of complaints alleging sales practice violations with claimed damages of \$5,000 or more, even when denied and unsupported by firm findings of misconduct. This practice may create irreparable and unfair reputational harm. FINRA could collaborate with the industry to find solutions that preserve investor protection while reducing disclosures that prove to be inaccurate and reputationally damaging for financial professionals. A better-tailored approach would also reduce the need for expungement, and ease administrative burdens on both firms and regulators.

B. Electronic Delivery ("E-Delivery")

FSI encourages FINRA to review opportunities to expand the use of e-delivery for investor communications and to work with other regulators to support e-delivery. As highlighted in the joint industry paper "E-Delivery: Modernizing the Regulatory Communications Framework to Meet Investor Needs for the 21st Century,"⁸ electronic delivery offers a faster, more secure, and more convenient method for disseminating information to investors. Implementing a framework that allows for electronic delivery by default, with the option for investors to opt for paper delivery, would align regulatory practices with current investor preferences and technological advancements. This approach would enhance investor engagement and reduce operational costs for firms, without compromising the availability or quality of information provided to investors.

C. Gifts Limits

FSI commends FINRA for its recent proposal filed with the SEC to amend FINRA Rule 3220, which governs the limits on gifts and business entertainment. The proposed rule change increases the gift limit from \$100 to \$250 per person per year, acknowledging inflationary changes and the evolving nature of business relationships. FSI intends to submit a comment on the proposal and supports modernizing FINRA's gift rules.

Conclusion

FSI is committed to constructive engagement in the regulatory process and welcomes the opportunity to work with FINRA on this and other important regulatory efforts. Thank you for considering FSI's comments. Should you have any questions, please contact me at (202) 393-0022.

Respectfully submitted,



Senior Vice President, Policy & Deputy General Counsel

⁸ SIFMA, FSI, IAA, *E-Delivery: Modernizing the Regulatory Communications Framework to Meet Investor Needs for the 21st Century* (Sept. 2020), <https://www.sifma.org/wp-content/uploads/2020/09/E-Delivery-Paper.pdf>