LPL Financial

July 14, 2025

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

Dear Ms. Mitchell:

LPL Financial Holdings, Inc. ("LPL") appreciates the opportunity to provide comments to the Financial Industry Regulatory Authority ("FINRA") in response to Regulatory Notice 25-07: FINRA Requests Comment on Modernizing FINRA Rules, Guidance, and Processes for the Organization and Operation of Member Workplaces (the "Request"). We hope you find our comments helpful, and we look forward to collaborating with FINRA as it reviews its regulatory requirements applicable to members and associated persons and modernizes its rulebook.

Rather than respond to each question set forth in the Request, LPL's comments below are organized by subject matter in the order they appear in the Request and provide our comments and observations which address many of the Request's questions. Those subject matter topics are: (A) Branch Offices and Hybrid Work; (B) Registration Process and Information; (C) Qualifications and CE; (D) Delivery of Information to Customers; (E) Recordkeeping and Digital Communications; (F) Compensation Arrangements; (G) Fraud Protection; and (H) Leveraging FINRA Systems to Support Member Compliance.

I. Overview of LPL

LPL Financial Holdings, Inc. is a retail investment advisory firm and independent broker-dealer operating in all 50 states and the parent company of two dually registered FINRA member firms. We are steadfast in our belief that Americans deserve access to personalized guidance from a financial professional. LPL serves as a trusted partner to more than 29,500 financial professionals and the wealth management practices at approximately 1,200 financial institutions, servicing and custodying approximately $1.8 trillion in brokerage and advisory assets on behalf of approximately 8 million Americans.

We provide our financial professionals with the technology, research, clearing and compliance services and practice management programs they need to serve their clients and create thriving businesses. Our financial professionals offer investment and financial education, financial planning, access to investment products and brokerage services, and personalized investment advice to investors seeking wealth management, retirement planning, financial planning and asset management solutions.

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II. Comments on the Request

A. Branch Offices and Hybrid Work

We appreciate the Request as we believe that FINRA's supervision rule is outdated and no longer accurately reflects the operational realities of a modern broker-dealer. This Request provides an important opportunity to modernize key definitions, build on the demonstrated success of the remote branch inspection Pilot Program, and provide broker-dealers with greater flexibility to leverage technology in support of more efficient and effective supervisory practices.

Impacts of Modern Technologies and Compliance Tools: Modern technologies and compliance tools have significantly enhanced our ability to effectively supervise decentralized workplaces and evolving hybrid work arrangements. Advancements in surveillance and monitoring technology have allowed us to implement more robust and real-time supervision of registered representatives, regardless of their physical location. Appropriate supervision no longer requires physical presence for many activities due to technological advances such as the ability to restrict business activities to a firm's authorized electronic systems and secure network connection; supervisory systems to monitor remote activity and maintain records; video conferencing, screen sharing, document sharing platforms, and other tools to conduct comprehensive remote examinations and inspections. As business operations increasingly shift to digital formats, the need to manage physical paperwork has diminished considerably, allowing for more efficient recordkeeping and streamlined compliance processes. At the same time, investor preferences have shifted in recent years toward virtual and digital platforms, driven by improvements in technology. Taken together, these developments demonstrate that modern technologies not only support but also enhance the effectiveness of supervision in today's more flexible work environments.

Branch Office and OSJ Definitions: We strongly recommend that FINRA modernize FINRA's Supervision Rule and align it with the realities of today's dynamic work environment, where significant parts of the workforce expect further flexibility from a purely office-based environment. Furthermore, the definitions and requirements around branch offices, offices of supervisory jurisdiction ("OSJs"), and non-branch offices should be significantly updated and as noted below, largely revised. These updates should reduce unnecessary burdens, eliminate outdated assumptions, and enhance clarity while continuing to protect investors and uphold market integrity. Most importantly, branch office and OSJ definitions must reflect that the majority of day-to-day work for a broker-dealer is handled electronically and can be supervised on an efficient centralized basis. Form BR enhancements should be made to reflect today's modern workplace to not require solely on-site supervision as implied by the 'person in charge' designation and instead recommend a 'point of contact' be designated within Form BR instead.

More specifically, we support revising the concept of OSJs [other than the removal of part (c)].[1] FINRA should narrow the scope of activities that would trigger the definition by eliminating final acceptance (approval) of new accounts on behalf of a member; review and endorsement of customer orders, pursuant to paragraph (b)(2) above; final approval of retails communications for use by persons associated with the member, pursuant to Rule 2210(b)(1), except for an office that solely conducts final approval of research reports. Furthermore, FINRA should recognize electronic oversight of these activities because they are increasingly executed via centralized platforms and do not require a physical presence at a designated office. Supervisory control can be maintained through electronic systems, ensuring both efficiency and investor protection.

[1] FINRA Rule 3110(f)(1).

The current branch office definition also does not align with modern workplace models. Terms like "primary location" and overly broad risk criteria capturing temporary workspaces (e.g., a local coffee shop) as branch offices are unwieldy. These approaches create compliance confusion and undue inspection burdens. To address this, FINRA should revise the "office of convenience" provision to allow greater flexibility for locations used on a temporary basis where no books and records are kept. This revision should also apply to instances of holding out the location to customers in advertising, enabling the acceptance of checks/securities so long as the firm adopts policies/procedures to maintain requirements detailed in SEA 15c3-3 on that topic. Additionally, the non-branch office category should be eliminated entirely, as its existence has led to confusion and unnecessary inspections of satellite offices that do not warrant such scrutiny, especially as no books and records are kept there since we keep our books and records electronically. Finally, the requirements under FINRA 2360(b)(20)(B) implies an additional requirement regarding Options Principals overseeing branches where more than three registered representatives are present and transacting in options. The firm believes that the transactions and accounts should be properly supervised but the direct supervision of the individuals does not reflect the modern supervisory approach for options reviews.

Experience with RSLs and Pilot Program: We commend FINRA's adoption of the Pilot Program to allow member firms to fulfill their inspection obligations. Given the demonstrated success of the Pilot Program, LPL believes FINRA should consider making it permanent. The Pilot Program has shown that remote inspections can be conducted effectively while offering meaningful benefits such as redirecting those costs to focus on risk that matters, increased efficiency, reduced travel, and minimal disruption to daily business activities for both supervisors and employees. FINRA should ensure that RSL obligations are not structured in a manner that discourages people from taking supervision roles due to the lack of flexible work requirements in today's modern workplace standards.

Codifying remote inspections into a permanent rule would further allow firms to allocate resources more efficiently, provide flexibility for supervisory functions and focus in-person oversight where it is needed most. We recommend that virtual inspections be permitted using a risk-based framework. This is particularly important to allow member firms to focus on resource allocation and use virtual inspections for low-risk roles and locations. Any transition to a risk-based framework would of course require that firms meet reasonable supervision, recordkeeping, and documentation standards.

We recommend that FINRA also consider refining the criteria for designating residential supervisory locations ("RSLs"). While the existing framework to designate RSLs and apply a less frequent inspection cycle is responsive to industry concerns, certain restrictions nevertheless remain overly rigid. Specifically, we urge FINRA to remove the requirement that supervisors must be employed by the firm for at least one year before they are eligible to be an RSL. Firms should instead have the discretion to assess an individual's readiness to be a supervisor based on qualifications, experience, and the risk profile of the activities they oversee, rather than an arbitrary tenure requirement.

Branch Office Requirement under FINRA 2360(20)(B):

B. Registration Process and Information

FINRA's Request presents a number of opportunities to modernize the registration process. LPL's comments on this topic are as follows.

Identification of RSL: FINRA Rule 3110.19(d) requires member firms to provide FINRA with current information identifying locations designated as RSLs in the frequency, manner and format as FINRA may prescribe. Rather than utilizing an electronic process or semi-annual or quarterly reporting, FINRA requires firms to respond to these location questions on Form U-4. Gathering all the data to accurately update and process all Forms U-4 to reflect those RSL designations is a high volume, time consuming, and manual process that imposes a significant burden upon most if not all member firms. LPL suggests FINRA explore a separate electronic reporting solution, with semi-annual or quarterly reporting, to avoid the need to manually update Forms U-4 for this purpose.

Definitions of Registered Representative and Associated Persons: FINRA Rule 1210 requires persons "engaged in the investment banking or securities business of a member" to be registered. FINRA Rule 1230 provides a association exemption for those "whose functions are solely and exclusively clerical or ministerial." FINRA By-Laws Article I(rr) defines "associated person of a member" as one "engaged in the investment banking or securities business who is directly or indirectly controlling or controlled by a member[.]" Yet, FINRA has not provided sufficient guidance to clarify the scope of these definitions and requirements which has led many firms, in an effort to avoid regulatory risk, to associate individuals who have limited involvement with their broker-dealer businesses. This means, for those individuals, firms must expend significant resources to meet the corresponding compliance requirements associated with registered representative or associated person status. LPL strongly suggests FINRA update its definitions of registered representatives and associated persons and/or provide guidance on this issue.

Fingerprinting Modernization: 17 CFR § 240.17f-2 requires fingerprinting of securities industry personnel, and FINRA maintains a list of certified Electronic Fingerprint Submission ("EFS") vendors. LPL recommends that FINRA collaborate with the SEC to modernize its fingerprinting requirements (in light of the above comment regarding certain personnel with limited broker-dealer business functions) and update to include an approved offshore vendor(s) for electronic fingerprint collection.

Updates to Public Sharing of Registration Information: The Request poses whether changes should be made as to what registration information FINRA shares with the public. LPL seeks the following updates:

- First, the monetary threshold for reporting the settlement of customer complaints, arbitration or litigation per Form U-4 Questions 14I (1), (2) and (4) has not been updated for more than sixteen (16) years. Currently, that amount is $15,000 and it should be increased to at least $25,000. Similarly, the threshold in the 24-month catch-all Questions 14I (3) and (5) should be increased from $5,000 to at least $10,000.
- Second, disclosing to the public customer complaints for an unlimited amount of time—particularly those settled for less than the Question 14I thresholds—can easily tarnish the reputation of registered individuals and affect their career growth. Therefore, FINRA should update Rule 8312(b)(2)(G) regarding "historic complaints" so complaints, arbitrations, and lawsuits that are resolved at an amount less than the Question 14I monetary thresholds are not referenced for an unlimited period of time on a registered representative's BrokerCheck report. Instead, LPL suggests that once a settled matter has dropped off an individual's Form U-4 it should also be removed from their public BrokerCheck report.
- Third, Form U-4 Questions 14E(4) and 14F should be updated so that registered individuals do not need to report suspensions that are not based on or related to misconduct, [such as where an attorney's bar

license is suspended due to the failure to complete continuing legal education requirements or failure to reaffirm their retirement status.

- Finally, FINRA should create a process whereby member firms may summarily request the removal of a complaint that is demonstrably false from a registered representative's Form U-4 without the time and expense of a formal expungement proceeding. This process could be modeled after the concept in the law where a court takes judicial notice of a fact that is not in dispute (e.g., July 14, 2025 was a Monday). Our current electronic communications environment—where customers may easily vent their frustrations via email, phone, or social media post—has led to an increase in false and/or unfair yet reportable written complaints that could follow a representative for their entire career. FINRA should create an efficient process that balances the interest in reporting to the public genuine grievances but also allows members to request the removal of complaints that clearly lack merit or were not made for any legitimate business purpose.

C. Qualifications and CE

FINRA should consider updating the qualification examination framework to encourage broader industry participation and further reduce unnecessary barriers to entry. Furthermore, greater coordination among FINRA, state securities regulators, and credentialing organizations is essential to ensure that continuing education requirements are streamlined, non-duplicative, and consistently deliver meaningful value to industry participants, in turn contributing to investor protection.

Qualification Examinations: We recommend FINRA expand upon the successful SIE qualification exam model to allow additional Representative-level exams be taken without firm sponsorship to further broaden access and accelerate the individual's readiness as well as improve onboarding efficiency. This more direct and practical approach will benefit both the application, the talent pipeline and employers.

The existing firm sponsorship requirement can limit opportunities and cause delays for otherwise qualified individuals who may not yet have secured employment with a firm but are ready and capable of passing these exams. The delay creates a bottleneck not only for candidates but also for firms. New hires often spend extended periods of time without being fully licensed to perform the roles for which they were hired. During this time, firms must invest in training and support without being able to deploy these individuals productively or in rejection of candidates who demonstrate they are unable to obtain qualifications required or their role.

Additionally, FINRA should consider waiving the SIE exam fee for certain populations for whom the cost may be a meaningful barrier, such as college students or economically disadvantaged individuals. Removing this barrier at the entry point would encourage more individuals to explore and pursue careers in the industry.

CE Program Updates: One improvement LPL recommends is to consider greater coordination with states and credentialing organizations to reduce redundancy and improve efficiency. The current structure of CE requirements, both within FINRA and across various professional designations, has become increasingly burdensome. This complexity can discourage individuals from pursuing additional, specialized credentials that could enhance their knowledge and skills, simply because the overlapping CE obligations are time-consuming and costly. By aligning CE requirements and coordinating with state authorities and other credentialing organizations, FINRA can help streamline the process through the development of complementary programs and the establishment of reciprocal credit agreements. This would allow professionals to meet multiple CE obligations through a single, well-designed training module when there is substantial content overlap. Such

reciprocity would not only reduce duplicative efforts but also promote broader participation in professional development and foster a more knowledgeable and competent workforce across the industry.

D. Delivery of Information to Customers

As stated in the Request, "Delivery of required documents is largely governed by longstanding SEC releases on electronic delivery and FINRA guidance aligned with the SEC releases[.]" Accordingly, LPL encourages FINRA to work with the SEC to update electronic delivery requirements. LPL's comments on this topic are as follows.

Default Electronic Delivery: LPL recommends FINRA collaborate with the SEC to update the SEC's electronic media releases or otherwise amend applicable electronic delivery rules to permit broker-dealers to offer electronic delivery—which could be via email, a firm's website or application, or other means of electronic transmission as may be available today or developed in the future—as the default delivery method as opposed to today's default of postal delivery. This would apply to existing customers after appropriate notice is provided (but without the need for their affirmative consent), and new clients would be notified upon account opening that they are enrolled in the firm's e-delivery process. Of course, this suggestion is only a change to the default means of delivery, and any customer could still elect to receive paper delivery at any time they wish.

Negative Consent Letters: LPL supports FINRA in issuing principles-based guidance to allow use of negative consent letters. Such guidance could provide the conditions under which an account change or transfer will be deemed "non-material," and could expand the examples where negative consent is approved to use due to the change not materially impacting the structure or ownership of an account (similar to the Request's reference to bulk transfers).

Alignment with Transfers of Advisory Accounts: LPL supports FINRA aligning its requirements concerning the transfer of brokerage accounts with the practices and requirements regarding the transfer of investment advisory accounts. As is usually the case, having one uniform requirement will provide firms, particularly dual registered firms, with processing efficiency and regulatory certainty on what is required. Further, from the investor's vantage point, they would not expect different processes and requirements regarding the transfer of their brokerage account versus their advisory accounts.

E. Recordkeeping and Digital Communications

LPL supports additional guidance for the scope of "business as such" communications. We also ask FINRA to provide greater clarity on AI-related transcription recordkeeping.

FINRA should additionally consider updates to its disclosure requirements to better align with how investors consume information today, including adopting more flexible and technology-forward approaches. One area for modernization would be permitting the use of a web address or hyperlink as sufficient means of satisfying certain disclosure obligations. For example, providing access to Form ADV via hyperlink instead of requiring a physical mailing would reflect common investor preferences and reduce administrative burdens.

F. Compensation Arrangements

As the Request acknowledges, "under some broker-dealer business models, registered representatives of the member have established personal services entities ("PSEs")—legal entities such as limited liability

companies—to receive compensation for their services and to achieve tax savings and other benefits." That arrangement represents the majority of LPL's business as its registered representatives are typically independent contractors operating their own business. Accordingly, LPL's comments on this topic are as follows.

Payments to PSEs: Due to FINRA Rule 2040(a)'s prohibition upon firms paying transaction-based compensation to unregistered entities, the industry's response has been as follows: broker-dealers pay commissions to their registered representatives who then assign or otherwise transfer the funds to their limited liability companies ("LLCs") so branch office utilities, rent, payroll and other business expenses may be paid. Not only does the FINRA Rule 2040 prohibition place form over function, but it also raises tax complications for the registered representatives as their Form 1099 income (with all commissions) and their reported income (paid by the LLC with commissions net of overhead and payroll) will be different and could potentially lead to time consuming, expensive IRS audits. Rule 2040 also potentially precludes the registered representative from taking advantage of certain tax provisions such as the Qualified Business Income deduction (QBI) under Section 199A of the tax code. For this reason, LPL respectfully urges FINRA to revise FINRA Rule 2040 to allow broker-dealers to pay transaction-based compensation directly to PSEs, provided that such PSEs are not exercising undue influence or control over the registered broker-dealer, which would be consistent with the SEC's practice to permit the payment of advisory fees to those same non-registered entities.

G. Fraud Protection

FINRA's Request presents an opportunity to update the tools firms have to avoid and mitigate technology-driven fraud and financial exploitation of retail customers. LPL's comments on this topic are as follows.

Considerations to Prevent Fraud: Technological advances are a double-edged sword; on one hand they have broadened firms' abilities to combat fraud, but those same advances allow bad actors greater opportunity to perpetrate technology-driven fraud. For FINRA's consideration, below is an outline of several initiatives FINRA could implement to help firms avoid and mitigate cybersecurity and fraud risks.

- Creating a free use, public database that identifies scams and fraudulent investments. This would provide a central repository of valuable information that both member firms and the investing public could use to avoid being involved in, or the victim of, fraud.
- Creating a "Standardized Scam Pattern Library," which could serve as a living repository of identified scams, scam typologies and behavioral red flags observed across firms, that could be updated by both industry members and regulators.
- Finally, the development of a fast-alert system or voluntary data sharing framework would also be helpful. This solution would be comparable to the suspicious activity bulletin-sharing in the banking sector that would provide member firms real-time alerts regarding emerging scams.

Extended Temporary Hold If There Is Ongoing Exploitation: Currently, assuming a firm's internal review supports its reasonable belief that the financial exploitation of the specified adult has occurred, is occurring, has been attempted or will be attempted, FINRA Rule 2165(b)(4) permits a temporary hold on trades and disbursements for an additional 30 business days. That 30-business day hold period in Rule 2165(b)(4) is in addition to the 15-business day hold in Rule 2165(b)(2) and the 10-business day hold in Rule 2165(b)(3) (for a total of 55 business days). To allow greater time for state regulators, adult protective services or law enforcement to investigate and act, LPL suggests FINRA modify Rule 2165, so its safe harbor extends beyond 55 business days, up to the earlier of (1) notice or action by the appropriate agency of competent jurisdiction or (2) entry of a court order.

LPL also supports FINRA broadening the application of Rule 2165 beyond "specified adults," to include any customer where there is a reasonable belief of financial exploitation.

Expanding the Rule 2165 Safe Harbor: LPL urges FINRA to expand the scope of the safe harbor to apply to customer complaints, or to issue guidance that permits firms to disclose complaints related to a Rule 2165 hold on the firm's Form U-5 instead of the registered representative's Form U-4. Without this expansion, the reality is the possibility of a customer complaint being reported on a Form U-4 can create a significant chilling effect on reporting within a firm, which is an outcome that no one wants. Further, it is possible a bad actor can use the possibility of a reportable complaint as a tool to leverage in connection with the financial exploitation of a customer. Therefore, Rule 2165 should clarify that customer complaints made in connection with a Rule 2165 temporary hold are not reportable on Form U-4.

Updates to Rule 4512: Currently, Rule 4512(a)(1)(F) and its supplementary material requires firms to attempt to obtain, for retail accounts, the name and contact information of a "trusted contact person age 18 or older who may be contacted about the customer's account." LPL suggests modifying Rule 4512 to change the reference from "trusted contact" to "emergency contact" or permit usage by firms of that term, given that wording is more commonly used in other contexts such as employment, healthcare, and similar circumstances. This will avoid customer confusion and increase the probability that retail customers provide that information. Further, LPL suggests adding a provision that if a customer has reached the age of 65 and has not designated a trusted contact, firms may contact a third-party individual they reasonably believe could assist in addressing possible financial exploitation, confirm the specifics of the customer's current contact information or health status, or provide the identity of the customer's legal guardian, executor, trustee or holder of a power of attorney.

H. Leveraging FINRA Systems to Support Members

FINRA should consider innovative ways to leverage its existing systems and data to both reduce onboarding costs and increase efficiencies for firms while also supporting broader industry workforce development and improved functionality. Enabling data access to CRD data of representatives and associated persons of another Broker-Dealer with consent of their Schedule A Officers would be one way to accomplish this goal.

Other Enhancements: To create additional efficiencies for its members and improve functionality, FINRA should also consider the development of two key system enhancements, (1) the creation of a centralized mutual fund fee disclosure database, and (2) modernization of the non-ACATs transfer process. We are mentioning this by way of background and will submit a more extensive comment on this section of the Request shortly.

LPL Financial

III. Conclusion

Thank you for your consideration and FINRA's continued commitment to modernizing its rules.

Kind regards,

Michael Freedman
Executive Vice President
Interim Co-Chief Legal Officer

Nate Saint Victor
Executive Vice President
Interim Co-Chief Legal Officer