

To: FINRA

Re: Capitol Securities Management comments on NTM 17-38 (remote inspections of qualifying branch offices)

In response to NTM 17-38, I commend FINRA for taking steps in addressing the evolving nature of our business as it has become electronically driven. As a mid-size firm with a large independent channel, we have many independent registered representative, one person office locations. Over the years the onsite audit portion of these small locations has been drastically reduced. Our firm has pushed towards electronic recordkeeping of all files, including client files, so the onsite portion of these audits has often become a mere "checking of the box" because the inspection of all records can be done at the home office. Our firm currently conducts both non-registered and registered branch location inspections every 3 years (calendar year), other than in the State of Virginia, which requires annual inspections for all types of locations.

I would suggest that FINRA consider including registered branch locations (i.e. location held out to the public as an office of the firm) with less than three people to be included in the definition of a qualifying office for remote branch inspections. Often times the difference between why a location is non-registered/non-public versus registered (public) is simply because the registered representative rents an office at an office space rather than work from home and the current rule only allows personal residences to be non-registered locations (Rule 3110(c)(2)(A)(ii)(a)). Another reason may be that a registered representative wants his/her office address listed on the business card because the OSJ address from which they are supervised, is in a different state, and for marketing purposes they would like a local address on their business card. For these small registered branch locations, the onsite portion of the inspections is minor just as it is for the non-registered locations. At times, if the office maintains no client files, the only item to inspect onsite at a registered branch location is to ensure proper signage is shown. Couldn't this be done via video conference or a submitted photo? I believe that FINRA should consider remote office inspections for certain types of registered branches so that this rule really does have a valuable impact from a cost perspective and time and resources perspective to small and mid-size firms.

Another option to consider for registered branch office locations could be a combination of a remote inspection but then also include /allow an onsite visit by the designated principal of the branch. Centralized supervision has been a growing trend in the industry and our firm has many small registered branches that are supervised by a designated principal in another location. Currently, the designated principal of the branch location is not allowed to perform the office inspection due to inherent conflicts of interest. Could FINRA consider allowing the remote portion of the office inspection be performed by an independent party from the assigned designated principal, but adjust the rule to allow the designated principal to perform the onsite portion of the inspection? I believe it is important for designated principals to meet with the individuals that they supervise as getting to know those under their supervision can greatly help a designated principal detect red flags out of the norm for that person, such as financial duress.

Lastly, in order for this proposed rule to have the impact on firms that FINRA desires an issue that our firm would still have is that we are located in the State of Virginia which requires annual onsite inspections of all locations (including non-registered locations). So currently, even for locations that FINRA would otherwise require to have inspections every three years, the State of Virginia requires an annual audit. This is a tremendous burden to our firm to have to annually conduct over thirty office inspections annually, for not only the cost, but the time and resources it takes to perform the pre-audit work and travel to the onsite location. Does FINRA have the ability to work with the state security corporations to work to better align rules?

In summary, I believe that FINRA allowing remote inspections could definitely have an impact on many firms and allow for compliance resources to focus on higher risk areas.

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