



8180 Greensboro Drive
8th Floor
McLean, Virginia 22102

VIA ELECTRONIC MAIL (pubcom@finra.org)

January 12, 2018

Jennifer Piorko Mitchell
Office of the Corporate Secretary,
FINRA
1735 K Street, NW
Washington DC 20006-1506

Re: Comments on Proposal to Amend FINRA Rule 3110 to Expressly Permit Remote Inspections of Branch Offices (Regulatory Notice 17-38)

Dear Ms. Mitchell:

Folio Investments, Inc. (“Folio” or the “Firm”) welcomes the opportunity to comment on the Financial Industry Regulatory Authority (“FINRA”) staff’s proposed addition of Supplementary Material .15 to FINRA Rule 3110, which expressly gives member firms the option to fulfill their obligations under paragraph (c) of the rule by conducting a remote inspection of a “qualifying office,” in lieu of a physical, on-site inspection (“Proposal”). Folio has been engaging the staff on this issue since at least 2013 as a proponent of opportunities for member firms to use tools and methods that leverage technology when designing and implementing effective compliance programs.

The staff’s efforts to better align the investor protection benefits of FINRA Rule 3110(c) and the impact of the rule on the business practices and economics of member firms are commendable. Folio supports the Proposal and the flexibility it would afford smaller-sized brokerage firms in implementing and maintaining cost efficient compliance programs applicable to business activities that pose relatively lower risks to investors.

Folio is an online, self-clearing broker-dealer based in McLean, Virginia that generally does not provide investment advice, recommend or solicit securities products or transactions and does not assign any registered sales personnel to customer accounts.¹ Folio’s remote supervisory personnel and registered sales personnel are based around the U.S. and use their personal residences as the locations from which they generally conduct business on behalf of the Firm (collectively, “Remote Offices”). Personnel in the Remote Offices are responsible for providing supervisory oversight consistent with FINRA Rule 3110(f)(1)(D) through (G) or, with respect to sales activities, setting up appointments to visit unaffiliated registered investment advisors, broker-dealers and other financial

¹ Folio’s customers are individuals (and their common investing vehicles such as trusts) that maintain self-directed brokerage accounts, as well as clients of registered investment advisors and introducing broker-dealers who use Folio’s clearing platform to execute securities transactions and custody their clients’ assets.

Ms. Jennifer Piorko Mitchell
January 12, 2018
Page 2 of 2

institutions in the region assigned to them to give live, in-person computer demonstrations of the Firm's brokerage, custody and related services platform. Such personnel do not hold out their residences as places of business to the public and do not handle cash or securities. Further, Remote Office personnel access records and systems via the Firm's secure VPN and are required to use Firm-mandated electronic communications mechanisms or systems, including email. No physical books and records of the Firm are maintained in Remote Offices. In prior inspections, the onsite portions of reviews have lasted 30 minutes or less and all of the items could have been reviewed and confirmed from Folio's headquarters in McLean, Virginia leveraging technology, including video conferencing. In light of these facts, the Firm viewed the requirement for onsite inspection of Remote Offices to be burdensome, an ineffective use of compliance resources, expensive and unwarranted from the perspective of investor protection.

Folio commends the FINRA staff on its work with respect to the Proposal and acknowledges the usefulness of the Proposal in allowing the Firm the flexibility to have a reasonably designed compliance program to assist in detecting and preventing violations of, and achieving compliance with, applicable FINRA rules, including current Rule 3110, that also is reasonable and commensurate with the level of investor protection risk associated with the Firm's business model.

If there are any questions, please do not hesitate to contact me (703-245-4848; greene@folioinvesting.com) and my colleague, Michael P. McDonald (703-245-5712; mcdonaldm@folioinvesting.com).

Sincerely,

Erica A. Green
Vice President & General Counsel
Folio Investments, Inc.