



VIA ELECTRONIC MAIL: rule-comments@sec.gov

September 6, 2022

Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: SR-FINRA-2022-021: Notice of Filing of a Proposed Rule Change to Adopt Supplementary Material .18 (Remote Inspections Pilot Program) Under FINRA Rule 3110 (Supervision)

Dear Ms. Countryman:

Cambridge Investment Research, Inc. (“Cambridge”), appreciates the opportunity to comment on The Financial Industry Regulatory Authority’s (“FINRA”) proposed rules regarding the establishment of a three-year, voluntary remote inspection pilot program (the “Proposal”). The Proposal would allow member firms to conduct inspections pursuant to Rule 3110 remotely, subject to certain criteria. Cambridge strongly supports this proposed change and believes it is reflective of the increasingly technology-driven financial services environment.

I. GREATER ADVANCEMENTS IN TECHNOLOGY SUPPORT REMOTE INSPECTIONS AND PROVIDE HEALTH, TIME, COST, AND EMPLOYEE BENEFITS

Historically, on-site inspections were an important part of a firm’s supervision of its offices. However, over the past several decades, technology has become increasingly prevalent throughout the financial services industry. Member firms now utilize modern technology, including laptops, mobile devices, video conferencing, electronic storage, and electronic surveillance. In fact, most of the activities conducted by registered representatives are electronic. As a result, most firms conduct a majority of their branch inspection reviews electronically in advance of an on-site visit. Due to these technological advancements, on-site inspections provide diminishing value as part of member firms’ supervision practices.

The COVID-19 pandemic further demonstrates firms’ ability to adapt and maintain appropriate supervision of branch offices in a remote environment. With the onset of the pandemic, member firms had to quickly adjust to remote working environments and utilize increasingly technological means to conduct supervision, including office inspections. These adjustments made by member firms were possible due to the significant number of technological solutions available. Firms adapted and obtained additional supervision tools needed to perform office inspections remotely,

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which illustrates how the prevalence of technology enabled firms to rapidly modify their business models to a remote environment.

The ongoing COVID-19 pandemic also highlights the need for relief from mandatory on-site inspections to protect the health and welfare of member firm employees and financial professionals. With tens of thousands of branch inspections conducted annually by FINRA firm members, a requirement for firms to send their employees or contractors on the road to inspect branch locations puts each of these groups at risk of exposure to COVID-19 and potentially transmitting COVID-19 to financial professionals across the country. The United States still experiences tens of thousands of new Covid infections daily and this is likely to continue indefinitely. Forcing anyone to travel or welcome visitors into their office or home to complete a branch inspection in order to maintain their job or comply with firm procedures and FINRA regulations over concerns or objections to their health and safety is not good policy or public relations for member firms or regulatory bodies.

Future epidemics, pandemics, natural disasters, social unrest, or governmental restrictions may prevent a firm's personnel from traveling to an office or otherwise prevent an on-site office inspection. The unpredictable nature of any of these circumstances may not allow a firm the opportunity to prepare for or reschedule an on-site examination of an office within the calendar year in which the inspection was to be completed. In these and other, similar, situations, it should be permissible for firms to conduct a remote inspection of an office.

In the current supervision environment, firms' examiners expend considerable time and effort to conduct on-site inspections. This includes the time and cost associated with travel to and from the branch office location, airfare, rental vehicles, hotels, and meals. By allowing remote branch office inspections when appropriate under the Proposal, firms can allocate the time and cost savings to enhance their supervision procedures. Further, firm examiners would be able to more completely focus their attention on the inspections of the branch offices, rather than dividing their time between inspections and constant travel.

In addition to the above, firm examiner positions that have traditionally required extensive, frequent travel would no longer require such. It can be difficult for firms to fill examiner positions due to the extensive travel required to conduct on-site inspections of branch offices. However, if most branch office inspections could be conducted remotely, as detailed in the Proposal, firms would be able to better attract top talent for examiner positions, as the position would be primarily stationary with significantly less travel necessary.

As a result of these technological advancements, Cambridge believes that allowing member firms to perform their remote inspection obligations remotely under FINRA Rule 3110 is an important step in modernizing FINRA rules. Further, Cambridge believes that the time, cost, and employee benefits associated with permitting remote inspections will allow member firms to better allocate their resources toward supervision of branch offices.

II. RISK-BASED APPROACH IS REASONABLE

Cambridge agrees with FINRA's proposed risk-based approach for determining which branch offices would be eligible for a remote inspection. Although most key aspects of an inspection are performed by firms electronically, there are circumstances in which an on-site inspection may be beneficial. Under the Proposal, firms will be able to develop and implement procedures for determining which branch offices would be ineligible for remote inspection, based on the criteria outlined in the Proposal.

FINRA's proposed criteria is reasonable and is tailored to address those associated persons who may present an increased risk, such that an on-site inspection would be warranted. Further, under the Proposal, firms will have the ability to create their own supervisory procedures outlining additional risk-based criteria which would require an on-site inspection of a branch office beyond the criteria described in the Proposal. This flexibility will allow each firm to tailor their branch inspection process and overall supervisory system based on the business model of the firm or its branch offices.

Conducting remote inspections would not preclude a member firm from also conducting on-site inspections. For example, if a member firm conducted a remote inspection of a branch office and believed that there may be areas of concern, the member firm could then conduct an on-site inspection of the office as an additional component of that branch office's inspection, if determined to be warranted.

Due to the foregoing, Cambridge believes the risk-based approach detailed in the Proposal is appropriate and provides a reasonable method for firms to participate in the pilot program.

III. THE PROPOSAL AND FINRA RULE 3110 CONTAIN APPROPRIATE SUPERVISION REQUIREMENTS

Regardless of whether office inspections are conducted remotely or on-site, firms have a continuing obligation to maintain supervisory procedures that are reasonably designed to achieve compliance with securities laws and regulations pursuant to Rule 3110. The Proposal does not eliminate firms' obligations under FINRA Rule 3110; rather, it provides firms with greater flexibility as to how they fulfill their office inspection requirements under the rule.

The Proposal requires member firms to conduct a risk assessment of each office to be examined remotely, including the factors considered when making its determination. Further, under the Proposal, firms must create and maintain written supervisory procedures to detail the risk assessment process and the scope of the pilot program. Cambridge believes that these proposed requirements, together with the criteria for eligibility for member firm and branch office participation in the remote inspection process, are appropriately designed to ensure member firms establish a reasonable remote inspection program.

Rather than ignore the power, sophistication and efficiency technology has brought to the financial services and upon which it now relies upon to conduct day-to-day business, Cambridge believes modernization of the inspection requirement under FINRA Rule 3110 is a necessary step forward

to modernize the FINRA rulebook. Since the Proposal is for the establishment of a pilot program for remote inspections, Cambridge believes the Proposal, if approved, will allow FINRA and member firms who participate in the pilot program to collect additional data regarding the remote inspection process. That data will enable FINRA and member firms to assess the remote inspection program and make any necessary adjustments.

Upon expiration of the three-year pilot program for remote inspections, Cambridge encourages that the rule be amended to permanently allow member firms to complete remote inspections of branch offices, pursuant to a risk-based approach for determining eligibility for a remote inspection. Cambridge believes such a permanent amendment would be a positive change for the financial services industry and would be a welcome step toward modernizing the rules for the financial services industry.

Cambridge appreciates the opportunity to offer comments regarding the proposed rule to establish a three-year remote inspection pilot program. Cambridge would be happy to discuss further any of the comments or recommendations outlined in this letter.

Sincerely,

/s/ Seth Miller

Seth Miller
General Counsel
EVP, Risk Management
Chief Risk Officer