

September 6, 2022

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

RE: File No. SR-FINRA-2022-021: *Proposed Rule Change to Adopt Supplementary Material .18 (Remote Inspections Pilot Program) under FINRA Rule 3110 (Supervision)*

Dear Ms. Countryman,

Commonwealth Financial Network (“Commonwealth”) appreciates the opportunity to comment on the Financial Industry Regulatory Authority’s (“FINRA”) proposal to adopt Supplemental Material .18 under FINRA Rule 3110. The Proposal would allow member firms to elect to fulfill their obligations under Rule 3110(c) (Internal Inspections) by conducting inspections of some or all branch offices and locations remotely without an onsite visit to such office or locations, subject to specific terms. Commonwealth broadly supports the Proposal, and herein offers commentary on certain aspects which we believe should be reconsidered.

Commonwealth’s Business Model and Supervisory Structure

Commonwealth is an independent broker/dealer and an SEC-registered investment adviser with home office locations in Waltham, Massachusetts, and San Diego, California, and more than 2,500 registered representatives who are independent contractors conducting business in all 50 states. Commonwealth’s total affiliate population operates out of over 3,700 locations, including over 600 registered secondary offices, and over 300 non-branch locations.

Commonwealth’s Remote Inspection Program

Commonwealth has long complemented its onsite audit requirements with a risk-based remote inspection program. This program has been in place prior to the worldwide COVID-19 pandemic and its presence allowed us to quickly transition to a fully remote program in March 2020. Since then, we’ve been able to refine our remote program and we applaud FINRA’s effort to fortify these opportunities through this Proposal. The past 2-plus years have allowed us all to find new ways to leverage centralized technology tools and systems to dig deeper into sales practices, customer account activity, and adherence to regulatory requirements. The ability to continue the experience for another three years is meaningful. We applaud the flexibility and recognition by FINRA that firms can build reasonable oversight and supervisory programs without a mandatory onsite visit requirement.

Commonwealth has previously provided detail on the success of its remote inspection program and remote work more broadly in its [RN 20-42 Comment Letter](#).

Support of the Proposal

We strongly support the Proposal to allow firms to continue to include remote inspections in their supervisory programs and offer the following comments in that regard.

1) Risk-Based Approach

Commonwealth agrees with the requirement to conduct a risk assessment to inform the eligibility of an advisor or office to receive a remote inspection and feels the Proposal affords member firms the flexibility to cater such assessment to their own business model. For example, Commonwealth maintains a centralized system of supervision, stores our books and records in electronic format, conducts the majority of its business in an advisory-based model, and hosts all advisor communications internally. Given this, we are able to conduct a significant portion of our reviews remotely. Additionally, our advisors leverage hundreds of secondary registered locations and other non-branch locations where no records are maintained but whose registration is required solely due to the nature of advertising or frequency of use. We find the risk-based requirements and restrictions to be reasonable in allowing firms the opportunity to cater their program to their business model and in assessing associated risks.

2) Flexibility Offered

Commonwealth agrees that “a system of risk-based on-site and remote inspections will allow firms to more efficiently deploy compliance resources and to use an on-site component only when appropriate”. The Proposal would afford firms flexibility to direct compliance resources to other important areas, such as compliance with new rules or emerging regulatory issues. These challenges, while long present, have seemingly increased in velocity over the past several years as demand for Compliance professionals has increased.

3) Value of Onsite Inspections

Commonwealth finds value in conducting onsite inspections beyond meeting our regulatory and customer protection obligations. They help serve to strengthen our relationships with our registered representatives, offer a direct communication channel between the firm and field offices, and present an opportunity to provide direct regulatory, policy, and risk consultancy. Commonwealth has always conducted more inspections than required under Rule 3110 and will likely continue that approach as we value the relationship and service opportunities onsite inspections offer.

Sunsetting of Supplemental Material .17 of FINRA Rule 3110

Absent approval of the Proposal, we strongly encourage FINRA and the Commission to extend the relief currently granted under Rule 3110.17. Remote inspections have been fully incorporated into Commonwealth’s supervisory programs and play an important role in business and resource planning. The Commission would unduly burden us should it not approve the Proposal or promptly extend current relief by creating an environment of regulatory uncertainty.

Comments on Proposal Improvements

While Commonwealth supports the Proposal generally, there are several aspects we believe warrant additional comment.

3110.18(b)(1)

Firms would be required to “develop a reasonable risk-based approach to using remote inspections”. This would be codified in Commonwealth’s procedures pertaining to remote inspections per 3110.18(c). 3110.18(b)(1) states that firms “document conduct and document a risk assessment *for that office or location*” (emphasis added). We believe that our risk-based methodology, supported by procedures, will result in a list of locations that need to be visited onsite and are concerned the

language chosen imposes additional documentary requirements on a location-by-location basis. We suggest the Commission reconsider the text and adjust for clarification.

3110.18(f)

We applaud FINRA's data analysis goals to better understand the effectiveness of remote inspections. Our experience mirrors that of FINRA's preliminary review of member firms between 2018 and 2021 which "found no significant departures relative to pre-pandemic examination results". Given firms are to apply a risk-based approach to selecting which locations would be eligible for remote inspections, it is likely that these lower risk locations produce examinations with fewer deficient activities than locations to be inspected onsite. This fact should not be construed to evidence that onsite inspections are more effective than remote inspections. Rather, that fewer deficiency findings are a logical result of the risk-based approach applied, and that the locations where inspections were conducted remotely represented an inherently lower risk profile.

SR-FINRA-2022-019: Proposed Rule Change to Adopt Supplementary Material .19 (Residential Supervisory Location) under FINRA Rule 3110 (Supervision)

Commonwealth believes that FINRA's proposal to adopt a three-year remote inspection pilot program should be approved concurrently with FINRA's proposal to designate certain locations as Residential Supervisory Locations. We largely support both changes to Rule 3110 and would include Residential Supervisory Locations in our remote inspection program should both proposals be adopted. Commonwealth commented separately on SR-FINRA-2022-019 in greater detail.

Concurrence with Other Industry Comments

Commonwealth agrees and supports the comments made by the Securities Industry and Financial Markets Association ("SIFMA") and the Financial Services Institute ("FSI") regarding the Proposal. We wish to share our concurrence with their statements.

Conclusion

Thank you again for the opportunity to comment on this important Proposal, which we strongly support. It has a significant impact on Commonwealth and is largely drafted to align with technological innovations and workplace conditions in which our industry operates. Commonwealth appreciates your consideration on its impact on our business and looks forward to seeing it approved on a permanent basis.

Sincerely,

Gavin Lucca
Manager, Branch Audit
Commonwealth Financial Network®