

# Decoding FINRA Rule 3110: Key Insights for Branch Inspections

In this webinar, we'll explore FINRA's Remote Inspections Pilot Program, FINRA Rule 3110, the new Residential Supervisory Locations (RSLs).



**OCT 1**

We'll get started at **11:02PM (CT)** to allow everyone to get logged in.

Online via **GoToWebinar**

# Today's Webinar

## Moderator and Panelists

---



**Allison Byrne**  
Quest CE Moderator



**Sander Ressler**  
Co-Owner and Managing  
Director at Essential Edge



**Jamie Schlag**  
Director at  
Essential Edge



## Before we get started: Housekeeping Items

All microphones have been muted upon entry.

If you have a question, please:

- Use the chat function

*We will attempt to address questions at the end*

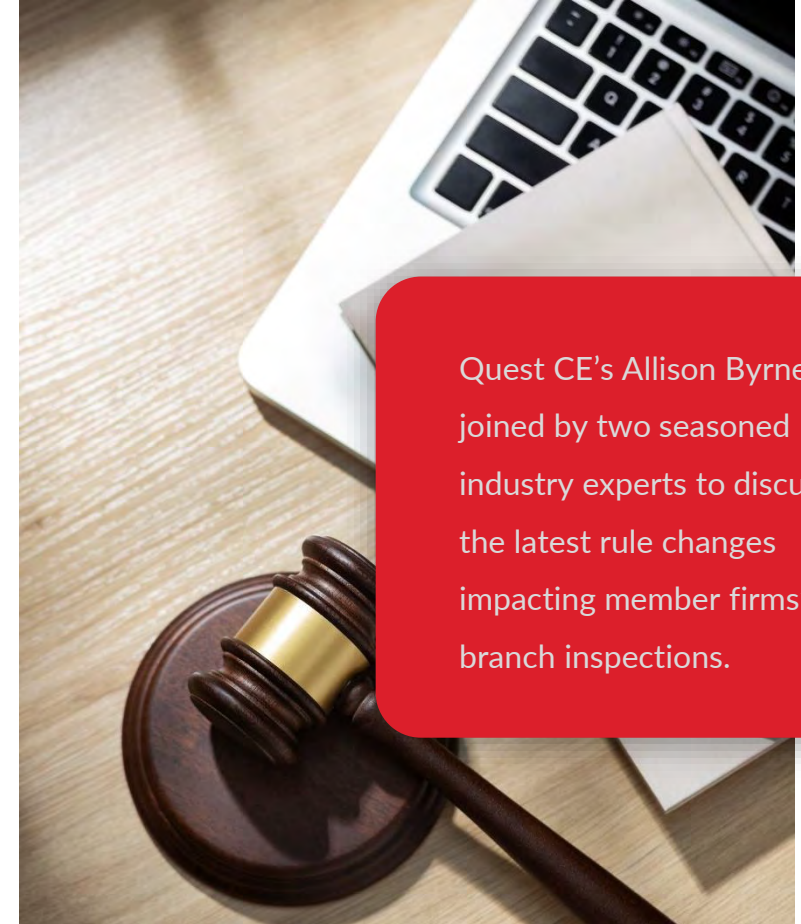


This webinar is being recorded.

# Today's Agenda:

---

- FINRA Pilot Program: Factors to Consider
- Overview of FINRA Rule 3110 Office Classifications
- Exploration of Non-Branch Locations/Associated Persons
- Focus on Residential Supervisory Location (RSL)
- The Shift Back to Office-Based Work
- Best Practices for Audit Programs
- Open Forum: Addressing Specific Audit-Related Questions from Participants



Quest CE's Allison Byrne is joined by two seasoned industry experts to discuss the latest rule changes impacting member firms' branch inspections.

Initial phase began July 1st, 2024

# FINRA Pilot Program

01

### Pilot Program vs. On-Site Inspections

The Pilot Program permits eligible firms to conduct remote inspections in lieu of on-site visits, subject to specific FINRA requirements.

02

### What will FINRA do with Data Collected?

FINRA will evaluate pilot data to determine if remote inspections can modernize supervision for hybrid work environments.

*First submission of data is due in mid-October.*

03

### Deadline to opt-in for Year 2

The deadline is Dec. 27, 2024. Firms opting in must participate for the full Pilot Year and follow Rule 3110.18.



**741** firms are participating in first year of Pilot Program.

**22%** of all members firms, with highest opt-in with large firms (500+).





---

# FINRA Pilot Program

## 01 Risk Assessment

Pilot Program participants must:

- Conduct and document risk assessments for each location
- Consider factors like size, complexity, and higher-risk activities
- Evaluate specific factors listed in Rule 3110.18(b)(2) (i.e. volume of customer complaints, OBAs, products)
- Use on-site inspections for high-risk locations or when red flags exist
- Develop a risk-based approach to remote inspections
- Adjust supervisory systems based on any red flags



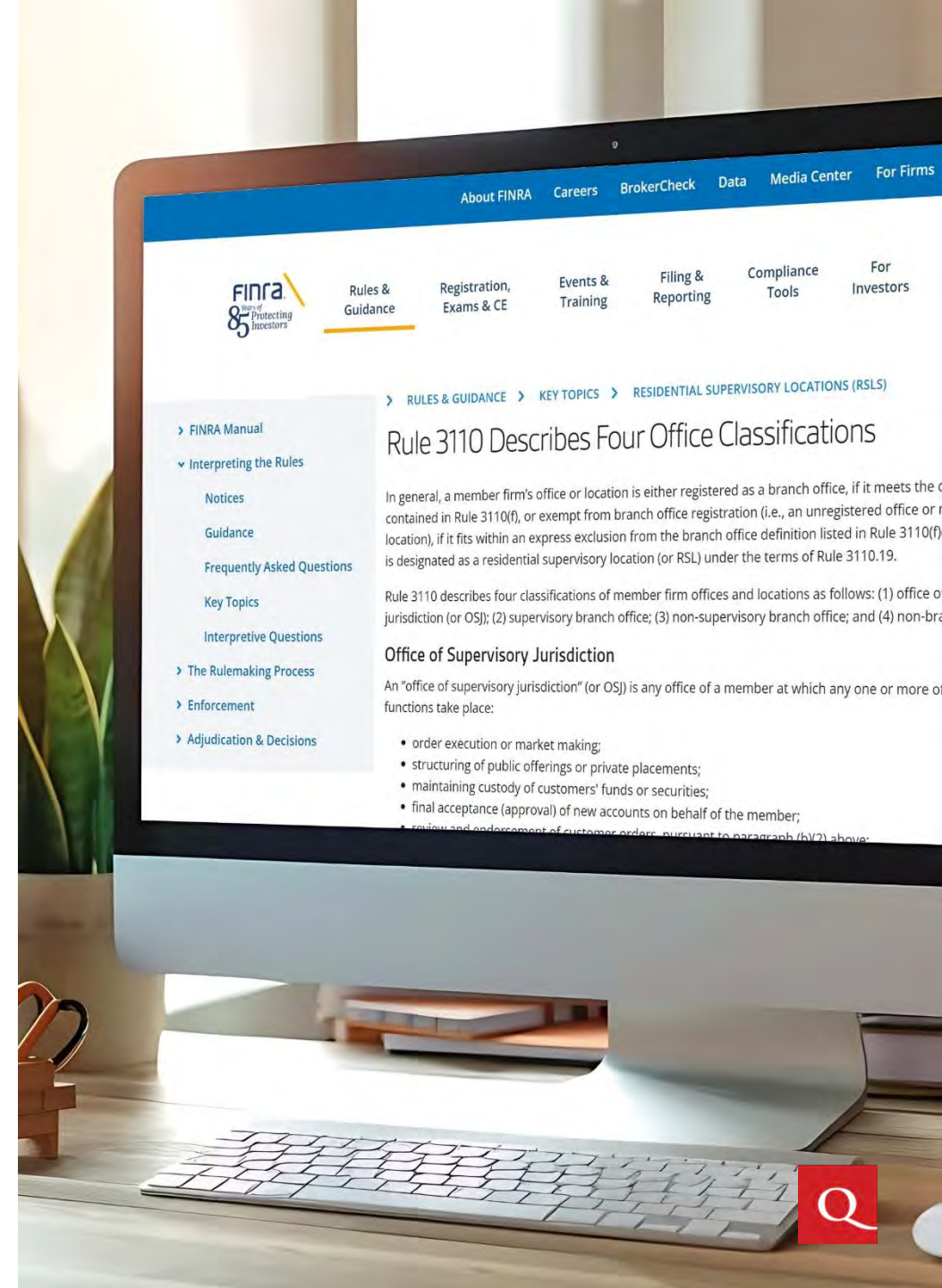
# FINRA Rule 3110 Four Office Classifications

## OSJ

**Supervisory Branch Office:** Responsible for supervising the activities of associated persons at one or more of the member firm's non-branch locations.

**Non-Supervisory Branch Office:** any location at which one or more associated persons of a member regularly conducts the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of, any security, or is held out as such.

**Non-branch Location/Unregistered Office:** Rule 3110 defines eight types of non-branch locations subject to a presumptive three-year inspection schedule, with seven expressly excluded from branch office registration.





---

# FINRA Rule 3110 Four Office Classifications

## 04 Non-branch Location/Unregistered Office

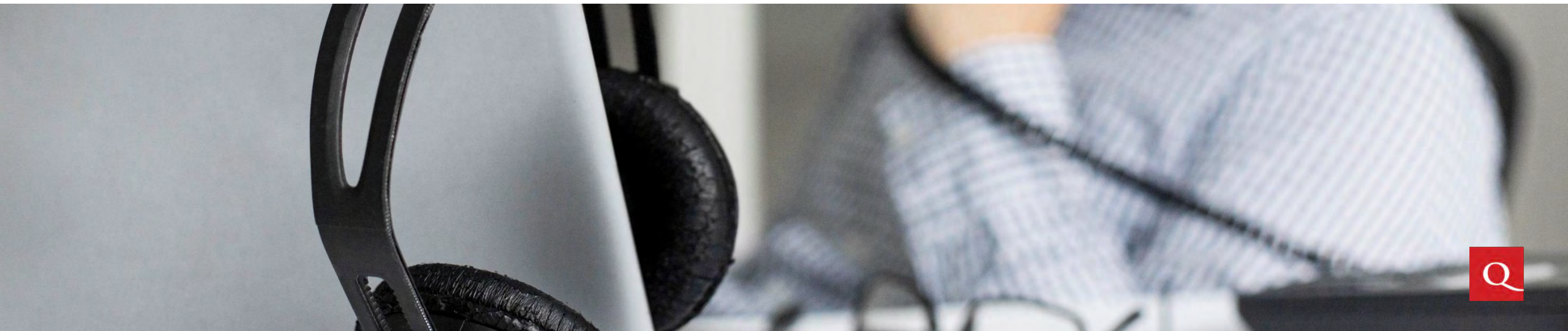
1. Non-Sales Location
2. Primary Residence
3. Non-Primary Residence
4. Office of Convenience
5. Location Used Primarily for Non-Securities Transactions
6. Registered National Securities Exchange Floor
7. BCP Location
8. Residential Supervisory Location (or RSL)



## 1.) Non-Sales Location

Any location that is established solely for customer service or back office type functions where no sales activities are conducted and that is not held out to the public as a branch office

- a. Non-registered Fingerprinted persons homes
- b. Member firm employees in non-supervisory roles



## 2.) Primary Residence

A location that is the associated person's primary residence provided that:

- a. Only one associated person, or multiple associated persons who reside at that location and are members of the same immediate family, conduct business at the location;
- b. The location is not held out to the public as an office and the associated person does not meet with customers at the location;
- c. Neither customer funds nor securities are handled at that location;
- d. The associated person is assigned to a designated branch office, and such designated branch office is reflected on all business cards, stationery, retail communications and other communications to the public by such associated person;
- e. The associated person's correspondence and communications with the public are subject to the firm's supervision in accordance with this Rule;
- f. Electronic communications (e.g., e-mail) are made through the member's electronic system;
- g. All orders are entered through the designated branch office or an electronic system established by the member that is reviewable at the branch office;
- h. Written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the member; and
- i. A list of the residence locations is maintained by the member.



### 3.) Non-Primary Residence

A location, other than a primary residence, that is used for securities business for less than 30 business days in any one calendar year, provided that:

- a. Only one associated person, or multiple associated persons who reside at that location and are members of the same immediate family, conduct business at the location;
- b. not held out to the public as an office and does not meet with customers at the location;
- c. Neither customer funds nor securities are handled at that location;
- d. The associated person is assigned to a designated branch office, and such designated branch office is reflected on all business cards, stationery, retail communications and other communications to the public by such associated person;
- e. The associated person's correspondence and communications with the public are subject to the firm's supervision in accordance with this Rule;
- f. Electronic communications (e.g., e-mail) are made through the member's electronic system;
- g. All orders are entered through the designated branch office or an electronic system established by the member that is reviewable at the branch office; and
- h. Written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the member.



## 4.) Office of Convenience

A location that is not held out to the public as an office at which an associated person occasionally and exclusively by appointment meets with customers;

- a. Coffee shop
- b. Meeting at a client's home



## 5.) Location Used Primarily for Non-Securities Transactions

A location that an associated person uses primarily to engage in non-securities activities and from which the associated person effects no more than 25 securities transactions in any one calendar year provided that any retail communication identifying such location also sets forth the address and telephone number of the location from which the associated person conducting business at the non-branch location is directly supervised.



## 8.) Residential Supervisory Location (or RSL)

A location that is a private residence at which an associated person engages in specified supervisory functions, including those listed in the OSJ definition—Rule 3110(f)(1)(D), (E), (F), and (G)—and Rule 3110(f)(2)(B), subject to specified [eligibility requirements and conditions](#).

- a. Rule 3110.19
- b. RSL Eligibility Requirements & Conditions – see link.
- c. RSL is non-branch location, which means that a firm does not need to register it as a branch office under Article IV, Section 8 of the FINRA By-Laws.
- d. As a non-branch location, a firm is required to inspect an RSL on a regular periodic schedule in accordance with FINRA Rule 3110(c)(1)(C) and FINRA Rule 3110.13.
- e. RSL designation started on June 1st, 2024.
- f. To use the RSL designation, a firm and the associated person at each location must meet specified eligibility requirements and conditions.
- g. Among other requirements, a firm must conduct and document a risk assessment, and provide a list of RSLs to FINRA on a periodic basis.
- h. Rule 3110.19(d) requires firm to provide RSL list to FINRA by the 15th day of the month following each calendar quarter via Gateway.
- i. Firms and associated persons are reminded to be sure U4s are updated regarding the office of employment address for registered persons who temporarily relocated due to the pandemic and as applicable, to submit branch office applications on Form BR (Uniform Branch Office Registration Form) to register their branch offices.





---

# The Shift Back to Office-Based Work

- 01 Examining the trend of firms mandating office returns
- 02 Case Studies: real-life examples of work models
  - Original number of branches/OSJs
  - Add in RSL locations
  - Non-registered branch locations
- 03 Financial implications for member firms



---

# Best Practices for Audit Programs

- 01 Key components of effective audit programs
- 02 Technology and tools for remote auditing
- 03 Addressing specific audit-related questions





(877) 593-3366



info@questce.com



www.questce.com

---

Thank you for attending today's webinar!

**Thank you to our panelists:**

- Sander Ressler ([sander@eefirms.com](mailto:sander@eefirms.com))
- Jamie Schlag ([jamie@eefirms.com](mailto:jamie@eefirms.com))

If you would like a recording of today's presentation, please contact us at [info@questce.com](mailto:info@questce.com)

Swing by the Quest CE booth if you're also attending the NSCP conference October 27 – 30<sup>th</sup>!