



January 12, 2018

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

**Re: Request for Comment, Regulatory Notice 17-38**

Dear Ms. Mitchell:

We appreciate the opportunity to provide FINRA with comments on Regulatory Notice 17-38 issued by FINRA on November 13, 2017, regarding remote branch office inspections.

We firmly believe that the industry will benefit with no loss of customer protections from a revision of the supervisory rules based upon improved technologies and stronger risk-based systems of supervision, and have been advocates of this type of change throughout our firm's participation on FINRA District committees over the last several years.

Our comments represent two broker-dealers: CUSO Financial Services, LP, and Sorrento Pacific Financial, LLC. Both broker-dealers are supported by a common home-office staff and fall under identical compliance systems of supervision. Our representatives primarily work in bank and credit union branches. We have approximately 516 producing registered representatives (RR) covering 1,865 branch locations. Under a financial institution model, it is common for a RR to cover several financial institution branches. While some branches are "offices of convenience", most are registered offices. Further, many of these offices have extremely limited coverage by an RR. It is not uncommon for a branch to have an RR present an hour or two once every two weeks. Such branches would be ideal for remote inspections, however the conditions of the proposal are unworkable as expressed in Regulatory Notice 17-38.

Under the current FINRA proposal to amend rule 3110, the conditions that FINRA is proposing are so restrictive that it would apply to fewer than 10 of our branches, or approximately .05%. FINRA's condition that the location is not held out to the public as an office of the firm does not work for the majority of financial institution branches since most financial institutions will identify all branches on their websites as branches offering all services, including investments via a networking agreement with a broker/dealer, provided by or through the financial institution. The condition that no customer funds can be handled at the location also does not fit well with the financial institution model since a significant portion of the business is placed directly with mutual fund or annuity sponsors, which normally requires a check and application. FINRA's condition that RRs may not have any disclosures in the previous five years, would eliminate the possibility of a remote inspection when the disclosure may be frivolous or malicious, and would require ongoing manual review of CRDs to determine eligibility.



Investment program branch offices in financial institutions have a much greater level of oversight and security than those outside of financial institutions. Banks and credit unions must abide by regulations set forth by their governing bodies including the FDIC, NCUA, OCC, the Federal Reserve, Office of Thrift Supervision and state banking regulators. Bank and credit unions with investment programs each have governing bodies requiring adoption and compliance with policies and guidance designed to oversee and monitor investment activities on their premises (e.g., FDIC Rule 5000-Statements of Policy for banks, NCUA Letter 10-FCU-03 for credit unions). Further, investment services are typically only provided during banking office hours when a bank branch manager and/or other bank personnel are present. Signage and advertising is typically required to be approved by the financial institution in addition to the broker/dealer. Each location has secure means of holding funds or securities overnight if they are received when mail courier services are unavailable. Offices have extensive information and physical security.

We believe that FINRA should adopt rules that recognize the additional oversight and security measures provided to investment programs in financial institutions. A carve-out to the existing proposal with more moderate qualifications should be designed for financial institution branches.

Ideally FINRA would move in the direction previously provided (Rule 3120) for supervisory procedures that allows broker dealers to use a **risk-based approach** to define what would be considered a qualifying office. Written supervisory procedures would define qualifications and identify how supervision would be handled.

CFS and SPF would be happy for the opportunity to provide additional information on the financial institution model as well as to participate in any beta testing of a remote inspection process. We look forward to learning more as this process ("proposed regulation") is further adjusted and defined.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter Vonk'.

Peter Vonk  
CCO, EVP, CUSO Financial Services, LP  
Financial, LLC

Sincerely,

A handwritten signature in black ink, appearing to read 'Rick Dahl'.

Rick Dahl  
CCO, EVP Sorrento Pacific