June 11, 2025

Via Electronic Submission

Jennifer Piorko Mitchell

Office of the Corporate Secretary

FINRA

1735 K Street, NW

Washington, DC 20006-1506

Re: Comments on FINRA's Rule Modernization Initiative Notice 25-04

Dear Ms. Mitchell:

Finalis Securities LLC ("Finalis") appreciates the opportunity to provide feedback on FINRA's ongoing rule modernization initiatives, particularly with respect to (1) the definition of "branch office" and related supervisory rules, (2) the adoption of artificial intelligence ("AI") and the benefits and challenges, (3) the need for rule modernization to reflect the expanded digital footprints of registered representatives, and the challenges of effective supervision. Finally, we wish to comment on rule modernization with respect to (4) the supervision of brokerage accounts for firms like Finalis that primarily conduct business in non-public private placements and M&A transactions.

Finalis Securities LLC ("Finalis") is a registered broker-dealer and a leading technology-enabled platform purpose-designed to support independent investment bankers, placement agents, and M&A advisors operating within the U.S. private capital markets. Founded in 2020, Finalis delivers a comprehensive regulatory infrastructure that enables affiliated registered representatives to conduct securities transactions under a supervised and compliant framework, without the operational overhead of maintaining their own separate business entity.

Finalis distinguishes itself through the integration of modern digital workflows, secure cloud-based systems, and AI-driven compliance tools that enhance supervisory controls and streamline deal execution. By leveraging technology to centralize compliance functions and enable real-time electronic surveillance, Finalis provides scalable, risk-sensitive oversight across a distributed and predominantly virtual network of representatives.

With over 500 affiliated professionals representing more than 300 investment banking firms, Finalis supports a broad spectrum of private placement and M&A activity, with over $90 billion in active deal volume as of year-end 2024. The platform's core mission is to democratize access to capital formation and advisory services by lowering structural barriers and enhancing the integrity and efficiency of transaction execution through a digitally native operating model.

Finalis remains committed to operating in full compliance with SEC and FINRA regulations, while advocating for thoughtful modernization of legacy frameworks to better reflect the realities of digital-first business models in the contemporary broker-dealer environment.

I. Branch Office Definition and Supervisory Structure

The Need for Modernization

As a digital-first broker-dealer and supervisory platform, Finalis represents over 400 registered representatives nationwide, most of whom operate in a virtual capacity, often from private home offices or shared workspaces. These professionals conduct business using secure, cloud-based tools without engaging in traditional, in-person client activity associated with historical brick-and-mortar branch offices.

We write to respectfully advocate for a modernization of the branch office framework that recognizes the shift toward digital operations and remote business models. Specifically, we urge FINRA to clarify that locations used exclusively for digital interaction—locations where no client meetings are held, that do not bear firm signage, where no checks or securities certificates are accepted for deposit, or other similar activities—should not be deemed “branch offices” under Rule 3110(f)(2). We also recommend amending the supervisory inspection cadence in Rule 3110(c) to differentiate between traditional branch offices and non-public-facing digital locations.

The current definition of “branch office” imposes registration and inspection obligations even on locations that provide no public presence or retail exposure, which includes many of Finalis’ associated persons. This structure:

- Imposes undue costs: Registering and inspecting hundreds of low-risk, digitally operated home offices is a substantial administrative and financial burden.

- Yields limited regulatory value: These locations do not serve as hubs for in-person client interaction, do not hold out physical signage, and do not maintain books and records on premises.

- Disincentivizes innovation: The current model hampers the scalability of modern compliance platforms and restricts firms that invest in centralized, tech-enabled supervision.

Suggested Framework for Reform

We respectfully propose that FINRA revise its branch office definition to explicitly exclude remote locations that meet the following criteria:

1. No signage or public-facing advertising **at** the location;

2. Outside Business Activities that are held out to the public that do not effect retail transactions (e.g., Investment Banks).

3. Occasional in-person client meetings conducted at the premises, and by appointment only;

4. All client interaction conducted through secure, digital communication tools;

5. All business records maintained in centralized, cloud-based systems accessible to the member firm;

6. The associated person is supervised via electronic surveillance and subject to periodic remote audits and attestations.

Under such a definition, these remote locations would be treated akin to "non-branch offices" or "OSJ satellites" and would be subject to tailored supervision under the firm's supervisory system (per Rule 3110(a) and (b)), but not mandatory physical inspections per 3110(c).

Alignment with Risk-Based Supervision Principles

Modern regulatory priorities stress the importance of risk-based supervision and technological oversight mechanisms. Finalis believes the exclusion of digital-only locations from the branch office definition would align better with those principles, allowing firms to focus regulatory resources on actual points of risk and customer exposure.

Additionally, Finalis' cloud-native infrastructure enables robust electronic communication review, centralized recordkeeping, and ongoing monitoring of representative activity—all of which are more effective and scalable than legacy office inspections.

II. Adoption of Artificial Intelligence (AI) to augment traditional supervision

We view AI not as a replacement for human supervision but as a powerful augmentation tool that supports the efficient and accurate identification of potential risks, anomalies, or violations across communications and transactional activity. In this context, Finalis has implemented AI models to assist in surveillance of electronic communications and identification of red flags in workflows, with all such use overseen by appropriately qualified supervisory personnel, consistent with our obligations under FINRA Rule 3110.

To that end, we believe it is critical that FINRA provide further guidance on the following issues:

1. **Human Oversight and Supervisory Accountability:** Finalis supports the principle that AI tools used in compliance functions must operate under the oversight of designated, qualified principals of the firm. We recommend FINRA affirm that the use of AI in supervisory systems does not displace the firm's duty to designate responsible individuals under its supervisory procedures, and that such tools be implemented with clear human-in-the-loop controls.

2. **Books and Records Considerations:** We seek clarification on whether output or analysis generated by AI tools (e.g., flagged items in communications surveillance, automated risk assessments) constitutes a regulatory "record" under SEA Rule 17a-4, and whether firms must explicitly label such output as AI-generated. A consistent industry position on this issue would promote transparency and uniformity in regulatory exams and enforcement expectations.

3. **Risk Management and Testing Standards:** Finalis encourages FINRA to adopt a principles-based framework for the governance of AI tools used in regulatory contexts, emphasizing explainability, auditability, and proportional risk controls, rather than prescriptive technical standards that may not be feasible across diverse firm sizes and business models.

Finalis remains committed to deploying AI in a responsible and compliant manner that enhances investor protection and strengthens supervisory effectiveness. We welcome continued dialogue with FINRA as it develops further guidance or rulemaking on this critical issue.

III. Challenges of Supervising Expanding Digital Footprints and Need for Rule Clarity

As a modern, tech-enabled broker-dealer, Finalis operates a digital-first platform designed to support independent investment bankers through a secure, cloud-native environment. We are deeply familiar with the complexity and breadth of digital communications today, including emails, messaging platforms, web presence, social media, and other public-facing or client-interactive channels.

In recent years, the digital footprint of registered representatives has expanded dramatically. This expansion, while reflective of broader industry innovation and investor preferences, introduces considerable challenges in maintaining robust supervision in accordance with existing regulatory requirements. The current rules framework—largely built around static definitions of written communications and physical supervision—does not fully accommodate the dynamic, fast-evolving nature of digital interactions.

Accordingly, we respectfully request that FINRA consider rule modernization in the following areas:

1. **Clarification of Supervisory Expectations Across Digital Channels:** FINRA should issue updated guidance that clarifies the scope of a member firm's responsibility for capturing, reviewing, and supervising content across a broader array of communication platforms, particularly when third-party systems are used for client interaction or when third-party systems are used strictly for internal communications. This guidance should be risk-based and aligned with the actual conduct of business.

2. **Recognition of Scalable, Technology-Driven Supervision Models:** We encourage FINRA to formally recognize the role of technology, including AI and automated workflows, in assisting firms to fulfill their supervisory responsibilities across digital communications. This includes tools for lexicon flagging, pattern recognition, and risk scoring to prioritize supervisory review. We believe it is critical for FINRA to require that such tools must be deployed under oversight of qualified personnel, consistent with Rule 3110.

3. **Flexible Recordkeeping Practices:** As communication methods proliferate, firms should have flexibility to adopt recordkeeping systems that are adaptive and technology-forward. This

includes permitting use of cloud-based archives and integrations with API-driven capture systems, provided they meet the substantive requirements of SEA Rule 17a-4.

4. **Digital Footprint Risk Assessments:** We urge FINRA to encourage or require firms to conduct periodic risk assessments of their representatives' digital communications landscape, to proactively address channels that may fall outside legacy supervision programs.

IV. Supervision of Outside Brokerage Account Activity

Finalis is a registered broker-dealer that operates exclusively within the private capital markets, conducting transactions solely in private placements and non-public mergers and acquisitions. In this context, the current requirements under FINRA Rule 3210 and related supervisory obligations concerning the review of outside brokerage account activity impose significant administrative burdens, with limited practical compliance value in our particular business model.

We respectfully propose that FINRA consider a rule modernization effort that introduces appropriate exemptions or a risk-based supervisory framework for firms like Finalis that do not engage in public market trading or activities involving material non-public information (MNPI) related to publicly traded issuers. Specifically, we believe that:

1. Firms that transact exclusively in private securities and non-public M&A should not be required to collect and review outside brokerage account statements, absent a specific nexus to public market activity;

2. Where public company transactions or MNPI are involved, Finalis fully supports the continued requirement to collect, review, and retain outside account activity records in accordance with current rules and expectations; and

3. A risk-based approach, subject to supervisory documentation and internal control standards, would allow for tailored oversight based on the actual regulatory risk presented by a representative's activities.

4. A limitation of scope should apply only to individuals directly engaged in a transaction—namely, the registered representative—excluding those who are merely associated with a member firm but not actively participating in deal activity.

We believe this approach aligns with FINRA's broader objectives to modernize its regulatory framework in a manner that reflects current industry practices, technological advances, and the diverse business models of member firms. Introducing flexibility into the application of Rule 3210 and related supervision obligations would alleviate unnecessary compliance costs for firms operating exclusively in the private capital markets, without compromising investor protection or market integrity.

We welcome the opportunity to provide any additional information or operational context that may support FINRA's modernization efforts

Sincerely,

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