July 14, 2025

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1700 K Street, NW
Washington, DC 20006-1506

Re: FINRA Regulatory Notice 25-07 – Request for Comment on Modernizing FINRA Rules, Guidance, and Processes for the Organization and Operation of Member Workplaces

Dear Ms. Mitchell:

Charles Schwab & Co., Inc. ("Schwab"), appreciates this opportunity to respond to FINRA Regulatory Notice 25-07, which requests comment on modernizing FINRA rules, guidance, and processes for the organization and operation of member workplaces. Further, we appreciate the steps taken to date to modernize existing rules. While not a comprehensive response to all of the issues raised and questions posed in the Notice, we thought it worthwhile to provide feedback on a number of important items that fall under the purview of the request for comment.

Branch Offices and Hybrid Work

The existing definitions of branch offices and offices of supervisory jurisdiction (OSJs) are no longer tailored to the practical applications of a hybrid and digitally accessible industry. The existing definitions instill the concept of physical proximity into the design of supervision and oversight programs for member firms. This was a necessary factor historically, and we applaud FINRA's recognition of the need to modernize that approach and believe it begins with the definitions.

It is Schwab's belief that physical locations remain a key element of our regulatory design, but they no longer serve as the single nexus of client engagement that they did in years past. Client relationships have evolved such that the Branch Office is now one of many channels for interaction. Digital engagement statistics across our industry support the view that firms need

the flexibility to define their supervisory approach in a manner best suited for their business model rather than the existing approach as defined by the definition of an OSJ. As such, FINRA's requirements for branches should be updated to focus on the unique risks and obligations of these in-person models. Where offices are open to the investing public, that should drive regulatory scrutiny of the interaction with clients in whatever channel they may engage with the firm. Where registered persons are concentrated and business practices are largely in person, focus is on how representatives interact in that setting and should be supervised accordingly. Outside of these however, our obligation to supervise registered activity is required to follow a reasonableness standard and a firm should be able to decide if physical proximity or supervisory centralization is most reasonable and effective for its operating model. This includes supervision, as the network of supervisory activity for much of the industry is done from a combination of an onsite supervisor and a centralized team, making the notion of the OSJ much more limited in scope and in certain cases obsolete.

Member firms reporting where registered activity is taking place is still fundamental, for purposes of registration requirements and regulatory transparency, mirroring models already in place for residential supervisory locations (RSLs). Schwab continues to commend FINRA for the forward thinking evident in the introduction of RSLs, as the first step towards this broader modernization. However, we believe further refinement in this area, including the removal of the requirement for a year of supervisory experience with the sponsoring firm, is needed. This requirement discounts potentially extensive supervisory experience across the industry. As the regulatory obligations for supervision are industry-wide, experience should be recognized across all registered members and firms already have a requirement to oversee a new supervisor's activities. Additionally, where supervisors are located predominantly in a registered location, the need to deem a secondary location as an RSL or OSJ, where supervisory activity may be entirely digital, becomes solely an administrative task, as the firm should already be adequately overseeing that activity. Further it creates a self-supervisory concern in a potential single person OSJ.

Ultimately, Schwab believes we should revisit the defining language for branch offices and OSJs, with an aim to recognizing them as one client engagement channel among many and allowing member firms more latitude to design their supervisory structures in keeping with their operating models. Additionally, FINRA has already taken steps to evolve, notably through RSLs, and those changes should continue to be refined with time.

Registration Process and Information

Revisiting our registration process affords tremendous opportunity in the future growth of our industry. FINRA has made significant steps already in this space, and it is Schwab's belief we should continue that in its logical evolution. Where the Securities Industry Essentials (SIE) exam was introduced and sponsorship requirements for that qualifying exam removed, Schwab believes we should build on that by removing sponsorship requirements for more qualifying exams, notably the series 7 & 63, but others should be considered as well. Importantly, this does not introduce any new risk as no one is entitled to use such licenses unless they are also registered by a member, but it does create the opportunity to cultivate a new generation of financial professionals able to pursue our industry as part of their broader education. Candidates

would join members with licenses in hand, reducing the risk and exposure to those firms who currently hire prospective licensees and allowing firms to focus training efforts on the individuals' new role.

There are also a host of opportunities that can be addressed in this space without any negative impact to customer protection:

- The waiting period between failed exams should be revisited. While we agree that no one benefits by bogging down the testing process by allowing candidates to test and then immediately turn around to do so again, the current time frames are excessive and should be reduced.
- The timing for the Regulatory Element and IAR continuing education (CE) deadlines are currently the end of the calendar year, which is intuitive, but it unfortunately coincides with the annual shut down of the Central Registration Depository, making it a challenge for firms to validate that CE is complete before representatives would have to be deemed inactive. These timeframes should be distinct and separate.
- The obligations of FINRA Rule 2263, necessitating a separate disclosure around employment disputes, should be incorporated directly into the form U4. This ensures consistent delivery for the registered population, while simplifying the process for members.
- The limitation on member firms to have only one Super Account Administrator (SAA) for WebCRD is outdated and creates a key person risk for all members.
- In an era where the elements of the registration and onboarding process are centralized by design, the language required in section 15B of the form U4 should be modernized so as not to misrepresent the activities be specifically conducted by the signatory.

Electronic Delivery of Information to Customers

We now find ourselves a quarter of the way through the twenty-first century. For many years, government entities such as the Social Security Administration and the Thrift Savings Plan (TSP) program have defaulted to e-delivery of documents. Yet in the private sector, under the laws and rules established by Congress and the Securities and Exchange Commission (SEC), firms such as Schwab are still required to default to paper delivery of regulatorily-required documents.

While the rules have failed to keep up with technological and security advances, our customers have clearly showed their preference. Roughly 80% of Schwab clients have opted for e-delivery of documents. Unfortunately, though, despite this progress, Schwab still mailed more than 428 million sheets of paper in 2024. In addition to the cost to the firm and our clients, there is a high environmental cost to all of that paper. Digital delivery of these documents would also be safer and more secure for our clients. Furthermore, digital delivery of documents allows for quicker delivery and more layered, dynamic disclosures.

We, along with other industry firms, have urged both Congress and the SEC to act. Legislation has been introduced in both houses of Congress to address this long overdue reform.

Even without legislation, however, the SEC could and should act on its own to move to default e-delivery. Under the legislation and through the reforms we have urged the SEC to undertake, any client who would still like to receive paper could continue to do so.

While this issue is not primarily under the direct jurisdiction of FINRA, as the organization with primary oversight of the industry's compliance with SEC rules, we urge FINRA, in its interactions with the SEC, to lend its voice in support of efforts to move to default e-delivery. Such a move would ultimately lead to safer, more efficient and less costly delivery of important documents to millions of retail investor clients.

Recordkeeping and Digital Communications

Schwab supports FINRA's efforts to modernize the existing structure and language of Rule 2210 (Communications with the Public) in key areas including: definition clarification, enhancement and expansion across digital/electronic communications, and recordkeeping requirements. The focus on definitions and additional or enhanced Rule clarification should be expanded to include digital communications, such as social media (distinguishing between static and interactive content) and other electronic mediums. This expansion should also address pre-approval requirements and post-use supervision for modernized communications, not limited to interactive content. Additionally, the Rule should consider adding or expanding on communication types for internal use by affiliated entities (such as broker-dealers or investment advisers) and nonaffiliated entities, along with the associated Rule implications. Greater detail is needed regarding non-material and non-narrative changes, clarifying what constitutes 'material' changes requiring new principal approval and ensuring that firms can reasonably demonstrate the supervision of changes without creating redundant records of updates made to disseminated communications.

Recordkeeping and principal pre-approval requirements should be clarified and guided for the use of vendors, data brokers, and influencers. Guidance is also needed for bulk changes (e.g. broad changes) in digital communications, such as across web or mobile pages, to ensure approval and recordkeeping processes are efficient and avoid redundancy. The Rule should provide clear requirements for approvals and regulatory definitions, particularly for the final communication file requirement.

Advertising FAQs should be revisited and developed to address not only internal use by broker-dealers, but also internal use by broker-dealers plus investment adviser affiliated entities. These FAQs should cover obligations to principal pre-approvals, supervision, and recordkeeping of internal communications. Language translation should also be addressed, including the use of vendors like generative AI-powered technology or translation agencies. Guidance should be provided on the principal pre-approval of the original (English version) language versus translated content, best practices for formalized member supervisory procedures, and how to

handle unintended non-material or material changes during translation, along with appropriate recordkeeping practices.

Fraud Protection

Technological advances always benefit both the organizations committing fraud and the organizations fighting it; the current period is no different. FINRA should continue seeking to provide timely, actionable intelligence to member firms on emerging fraud trends, including suspected trading fraud intelligence developed from its surveillance and investigations. FINRA should also continue to share effective risk management practices it observes but should be careful not to be too prescriptive as fraud experience and risk management can differ widely across organizations. No specific new rules are needed, but as FINRA considers future updates to privacy or data-related rules and guidance, it should take care to avoid unnecessarily limiting firms' ability to share information and analyze client data to prevent fraud.

Rule 2165 is well designed for its original purpose: elder financial exploitation. Adding reasonable belief of impairment, which is often a permanent condition, to a temporary hold regulation, will only result in confusion. FINRA should continue to consider whether a separate safe harbor for ongoing management of clients with substantial impairments would be appropriate and workable. Additionally, Rule 2165 correctly targets a vulnerable category of investors where FINRA should encourage and support a focused risk management effort by member firms. Firms already have an obligation to protect all clients from fraud and corresponding fraud risk management programs. Forcing or encouraging member firms to treat all clients like specified adults removes needed flexibility from their fraud programs and could also dilute their special focus on specified adults. For example, in many fraud incidents, it does not make sense to send notifications to all parties on the account and all trusted contacts. Many clients would likely be angry if that occurred. Attempting to align elder financial exploitation risk management too closely with fraud risk management will harm both.

There are a significant number of situations in which clients are being exploited that cannot be resolved within the Rule 2165 extension timeframes. That said, further extending the time period will likely still not cover many of them. What is needed is a different category under Rule 2165 covering the situation in which the firm completes its investigation and concludes that the requested payments likely represent financial exploitation. For example, a client may be trying to send funds to another country to a person they have never met to secure a large inheritance that the firm investigation determined was a scam. If the firm is not able to get effective assistance from family, a trusted contact, law enforcement, adult protective services or regulators, the client may continue to attempt to send the funds. Depending on the firm and the relationship, it may be very difficult or take a long period of time to terminate their relationship with such a client. Rule 2165 should provide an indefinite safe harbor to protect firms who decline to send funds to parties they have confirmed are exploiting clients after a reasonable investigation.

FINRA should continue to work with other financial services regulators and lawmakers focused on exploitation of senior and vulnerable investors to establish more consistent nationwide standards for transaction holds and related practices. The current patchwork approach, with various timeframes, procedures and definitions, creates substantial administrative burdens for member firms and creates uncertainty and confusion that may harm the very clients these regulations were intended to protect.

Conclusion

Thank you for your solicitation of member feedback on these and many other topics through your series of Regulatory Notices aimed at modernizing FINRA's rules. We appreciate FINRA's commitment to continuous improvement that aims at deeper, more fruitful engagement with its member firms. We hope you find our comments to be constructive and look forward to further opportunities to engage with the goal of a more efficient and enriching regulatory environment that ultimately benefits the main street investors that we serve.

Sincerely,

Chad Nichols
Managing Director and Chief Compliance Officer
Charles Schwab & Co., Inc.