

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–101237; File No. SR–IEX–2024–19]

### Self-Regulatory Organizations; Investors Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt Supplementary Material .17 to IEX Rule 5.110 (Supervision), so That Any Location That Is the Private Residence of a Person Associated With a Member at Which Supervisory Activities Are Conducted, Which the Member Has Designated as a Residential Supervisory Location Pursuant to FINRA Rule 3110.19, Would Also Be Considered a Non-Branch Location Pursuant to IEX's Rules

October 3, 2024.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b–4 thereunder,<sup>3</sup> notice is hereby given that, on September 20, 2024, the Investors Exchange LLC (“IEX” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) under the Act,<sup>4</sup> and Rule 19b–4 thereunder,<sup>5</sup> the Exchange is filing with the Commission a proposed rule change to adopt Supplementary Material .17 to IEX Rule 5.110 (Supervision), so that any location that is the private residence of a person associated with a Member<sup>6</sup> at which supervisory activities are conducted, which the Member has designated as a Residential Supervisory Location (“RSL”) pursuant to FINRA Rule 3110.19, would also be considered a non-branch location pursuant to IEX's rules.

The text of the proposed rule change is available at the Exchange's website at [www.iextrading.com](http://www.iextrading.com), at the principal office of the Exchange, and at the Commission's Public Reference Room.

#### II. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

IEX proposes to adopt Supplementary Material .17 to IEX Rule 5.110, which would allow a location that is the private residence of a person associated with a Member where supervisory activities are conducted, including those described in IEX Rule 5.110(f)(1)(D) through (G) or IEX Rule 5.110(f)(2), that satisfies the conditions for designation as a RSL set forth in FINRA Rule 3110.19 to also be considered a non-branch location (*i.e.*, an unregistered office) for those activities under IEX rules. Without this proposed rule change, any private residence at which a person associated with a member conducts supervisory activities is subject to registration, an annual inspection and, in some cases, additional licensing requirements.<sup>7</sup> As described below, adding Proposed Supplementary Material .17 to IEX Rule 5.110 would harmonize IEX's internal inspections obligations for its Members<sup>8</sup> with FINRA's comparable obligations for its members, thereby avoiding confusion to IEX Members with respect to the applicability of FINRA's new RSL designation with respect to compliance with IEX Rule 5.110.<sup>9</sup> Additionally, because Proposed Supplementary Material .17 to IEX Rule 5.110 incorporates by reference FINRA Rule 3110.19, this rule change enables IEX Rule 5.110 to continue to be incorporated into the agreement between IEX and FINRA to allocate regulatory responsibility for common rules (the “17d–2 Agreement”).<sup>10</sup>

<sup>7</sup> See IEX Rules 5.110(a)(4) and 5.110(c)(1)(A).

<sup>8</sup> See IEX Rule 1.160(s).

<sup>9</sup> IEX notes that all IEX Members are currently FINRA members, or in the process of becoming FINRA members.

<sup>10</sup> See Securities Exchange Act Release No. 93324 (October 14, 2021), 86 FR 58110 (October 20, 2021)

#### Background

Early in 2020, the COVID–19 pandemic prompted FINRA to provide temporary relief to member firms from certain regulatory requirements to address the public health crisis.<sup>11</sup> FINRA subsequently adopted temporary relief to allow remote inspections of an Office of Supervisory Jurisdiction (“OSJ”), branch office, or non-branch location for calendar years 2020 and 2021;<sup>12</sup> FINRA extended the temporary relief several times to include calendar years 2022, 2023, and the first half of 2024.<sup>13</sup> IEX, following FINRA, offered its Members the same temporary relief to allow remote inspections of OSJs, branch offices, and non-branch locations for calendar years 2021, 2022, 2023, and until June 30, 2024.<sup>14</sup> FINRA replaced the temporary remote inspections relief with the Remote Inspections Pilot Program<sup>15</sup> that impacts the internal inspections requirements of FINRA Rule 3110(c); IEX subsequently amended its supervision rules such that any IEX Member that participates in the FINRA pilot shall be deemed to satisfy the

(File No. 4–700). The 17d–2 Agreement includes a certification by IEX that states that the requirements contained in certain Exchange rules are identical to, or substantially similar to, certain FINRA rules that have been identified as comparable.

<sup>11</sup> Among the temporary regulatory relief provided, FINRA adopted relief pertaining to branch office registration requirements through Form BR (Uniform Branch Office Registration Form) and FINRA Rule 3110(c) inspection requirements. Specifically, FINRA temporarily suspended the requirement for member firms to submit branch office applications on Form BR for any newly opened temporary office locations or space-sharing arrangements established as a result of the pandemic. See Regulatory Notice 20–08 (March 2020). With respect to inspection obligations, FINRA adopted temporary Rule 3110.16 that provided additional time for member firms to complete their calendar year 2020 inspection obligations. See Securities Exchange Act Release No. 89188 (June 30, 2020), 85 FR 40713 (July 7, 2020) (SR–FINRA–2020–019).

<sup>12</sup> See Securities Exchange Act Release No. 90454 (November 18, 2020), 85 FR 75097 (November 24, 2020) (SR–FINRA–2020–040).

<sup>13</sup> See Securities Exchange Act Release No. 96241 (November 4, 2022), 87 FR 67969 (November 10, 2022) (SR–FINRA–2022–030); Securities Exchange Act Release No. 93002 (September 15, 2021), 86 FR 52508 (September 21, 2021) (SR–FINRA–2021–023); Securities Exchange Act Release No. 94018 (January 20, 2022), 87 FR 4072 (January 26, 2022) (SR–FINRA–2022–001); and Securities Exchange Act Release No. 98560 (September 27, 2023), 88 FR 68258 (October 3, 2023) (SR–FINRA–2023–012).

<sup>14</sup> See Securities Exchange Act Release No. 92222 (June 22, 2021), 86 FR 34069 (June 28, 2021) (SR–IEX–2021–09); Securities Exchange Act Release No. 96460 (December 7, 2022), 87 FR 76222 (December 13, 2022) (SR–IEX–2022–12); Securities Exchange Act Release No. 96606 (January 6, 2023), 88 FR 2140 (January 12, 2023) (SR–IEX–2022–14); and Securities Exchange Act Release No. 99383 (January 17, 2024), 89 FR 4355 (January 23, 2024) (SR–IEX–2024–02).

<sup>15</sup> See FINRA Rule 3110.18.

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b–4.

<sup>4</sup> 15 U.S.C. 78s(b)(1).

<sup>5</sup> 17 CFR 240.19b–4.

<sup>6</sup> See IEX Rule 1.160(y).

equivalent internal inspection requirements in IEX Rule 5.110(c).<sup>16</sup>

In response to the pandemic, many private and government employers closed their offices and their employees continued with their work from alternative locations such as private residences. IEX, like FINRA, believes this model will endure, irrespective of the state of the pandemic. The pandemic accelerated reliance on technological advances in surveillance and monitoring capabilities and prompted significant changes in lifestyles and work habits, including the growing expectation for workplace flexibility. Moreover, the technology advancements that facilitated the transition to working outside the conventional office setting on a broad scale have not only effected a profound change in lifestyle and workplace practices for member firms, but provided SROs such as FINRA and IEX an opportunity to consider aspects of their supervision rules that may benefit from modernization.<sup>17</sup> As such, IEX, like FINRA, believes measured changes to its regulatory approach would allow firms to effectively and more efficiently carry out their supervisory responsibilities to review the activities of each office or location while preserving investor protections.

#### Current IEX Requirements to Register and Inspect Offices

Currently, IEX Rule 5.110 (Supervision) requires a Member, regardless of size or type, to have a supervisory system for the activities of its associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations, and IEX rules.<sup>18</sup> The rule sets forth the minimum requirements of a Member's supervisory system that includes registering a location as an OSJ or branch office that meets the definitions under IEX Rule 5.110(f) and inspecting all offices and locations in accordance with IEX Rule 5.110(c). The rule categorizes offices or locations as an OSJ or supervisory branch office, a non-supervisory branch office, or a non-

branch location.<sup>19</sup> The requirements to register, inspect and have a principal on-site vary based on the categorization. Specifically, the rule requires the registration and designation as an OSJ or branch office of each location, including the main office, that meets their respective definition under paragraphs (f)(1) and (f)(2) of IEX Rule 5.110, as described in more detail below.<sup>20</sup>

An OSJ is a type of branch office. IEX defines a "branch office" as "any location where one or more associated persons of a member firm 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[.]"<sup>21</sup> In addition, any location that is responsible for supervising the activities of persons associated with the member at one or more non-branch locations of the member is considered to be a supervisory branch office.<sup>22</sup> A location registered as a branch office must have one or more appropriately registered representatives or principals in each office, and is subject to an inspection at least every three years, unless it is a supervisory branch office in which case it is subject to at least an annual inspection.<sup>23</sup>

Depending upon the functions occurring at a branch office, it may be further classified as an OSJ, which IEX Rule 5.110(f)(1) defines as a member's business location at which any one or more of the following functions take place: (1) order execution or market making; (2) structuring of public offerings or private placements; (3) maintaining custody of customers' funds or securities; (4) final acceptance (approval) of new accounts on behalf of the member; (5) review and endorsement of customer orders, pursuant to IEX Rule 5.110(b)(2); (6) final approval of retail communications for use by Persons Associated with the Member, pursuant to IEX Rule 3.280, except for an office that solely conducts final approval of research reports; or (7) responsibility for supervising the activities of persons associated with the member at one or more other branch offices of the Member.<sup>24</sup> An office designated as an OSJ must have an appropriately registered principal on-site at the location, and must be inspected at least annually.<sup>25</sup>

However, subject to specified conditions, an office or location may be deemed a "non-branch location," and excluded from registration as a branch office. Currently, IEX Rule 5.110(f)(2) sets forth seven exclusions—often referred to as unregistered offices or non-branch locations—of which two pertain to residential locations.<sup>26</sup> One such exclusion appears under IEX Rule 5.110(f)(2)(B) and exempts from registration as a branch office an associated person's primary residence subject to the following express conditions: (1) 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; (2) the location is not held out to the public as an office and the associated person does not meet with customers at the location; (3) neither customer funds nor securities are handled at that location; (4) 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; (5) the associated person's correspondence and communications with the public are subject to the firm's supervision in accordance with IEX Rule 5.110; (6) electronic communications (e.g., email) are made through the Member's electronic system; (7) all orders are entered through the designated branch office or an electronic system established by the Member that is reviewable at the branch office; (8) written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the Member; and (9) a list of the residence locations is maintained

<sup>26</sup> See generally IEX Rule 5.110(f)(2)(A) and IEX Rule 5.110(f)(2)(D)–(G) which, in addition to the primary residence and the non-primary residence exclusions that are further described, excludes the following from the definition of "branch office": (1) 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; (2) any office of convenience, where associated persons occasionally and exclusively by appointment meet with customers, which is not held out to the public as an office; (3) any location that is used primarily to engage in non-securities activities and from which the associated person(s) 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(s) conducting business at the non-branch locations are directly supervised; (4) the Floor of a registered national securities exchange where a member conducts a direct access business with public customers; or (5) a temporary location established in response to the implementation of a business continuity plan.

<sup>16</sup> See Securities Exchange Act Release No. 101025 (September 16, 2024); see also Supplementary Material .16 to IEX Rule 5.110.

<sup>17</sup> See Securities Exchange Act Release No. 97237 (March 31, 2023), 88 FR 20568 n. 8 (April 6, 2023) (SR-FINRA-2023-006) ("FINRA RSL Proposal") (describing FINRA's "practice of periodically reviewing its rules to ensure they continue to promote their intended investor protection objectives in a manner that is effective and efficient, without imposing undue burdens, particularly in light of technological, industry and market changes.")

<sup>18</sup> See IEX Rule 5.110(a).

<sup>19</sup> See IEX Rule 5.110(f).

<sup>20</sup> See IEX Rule 5.110(a)(3) and Supplementary Material .01 to IEX Rule 5.110.

<sup>21</sup> See IEX Rule 5.110(f)(2).

<sup>22</sup> See IEX Rule 5.110(f)(4).

<sup>23</sup> See IEX Rule 5.110(c)(1)(A) & (B).

<sup>24</sup> See IEX Rule 5.110(f)(1)(A)–(G).

<sup>25</sup> See IEX Rules 5.110(a)(4) and 5.110(c)(1)(A).

by the Member (“primary residence exclusion”).<sup>27</sup> The second exclusion that pertains to a residential location appears under IEX Rule 5.110(f)(2)(C) is any 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 the Member complies with the conditions described in (1) through (8) above (“non-primary residence exclusion”).<sup>28</sup> In general, the non-primary residence exclusion typically refers to a vacation or second home.<sup>29</sup> A non-branch location must be inspected on a periodic schedule, presumed to be at least every three years.<sup>30</sup>

Notwithstanding either of these two residential exclusions or the other exclusions listed under Rule 5.110(f)(2)(A),<sup>31</sup> a primary or non-primary residence location that is responsible for either the supervisory activities set forth in the OSJ definition or for supervising the activities of persons associated with the Member at one or more non-branch locations of the Member is considered an OSJ or (supervisory) branch office, respectively.<sup>32</sup> Consequently, such residential supervisory offices are subject to registration, an annual inspection and, in some cases, additional licensing requirements.<sup>33</sup>

#### FINRA Residential Supervisory Location Rule

Effective June 1, 2024, FINRA implemented a rule change that establishes a new Residential Supervisory Location (“RSL”) designation for a private residence at which an associated person engages in specified supervisory activities, subject to specified investor protection safeguards and limitations.<sup>34</sup> This new non-branch location targets the subset of residential locations that have many of the attributes contained in the primary residence exclusion, but must be registered as an OSJ or branch office because of the supervisory functions taking place there.

As described in the FINRA RSL Proposal, the definition of an RSL is based largely on several existing aspects of FINRA Rule 3110(f) (and therefore on the functionally identical IEX Rule 5.110(f)). In particular, the RSL definition incorporates the existing supervisory functions appearing in the OSJ definition (FINRA Rule 3110(f)(1)) and branch office definition (FINRA Rule 3110(f)(2)(A) with the existing residential exclusions set forth in the branch office definition to classify an RSL as a non-branch location. Under current IEX rules, a private residence at which these supervisory functions occur must be registered and designated as a branch office or OSJ under IEX Rule 5.110(a)(3), and inspected at least annually under IEX Rule 5.110(c)(1)(A). By treating such location as a non-branch location, the private residence would become subject to inspections on a regular periodic schedule under IEX Rule 5.110(c)(1)(C), presumed to be every three years.<sup>35</sup>

FINRA Rule 3110.19 incorporates some existing safeguards and limitations members must already satisfy to rely on the primary residence exclusion.<sup>36</sup> As described in the FINRA RSL Proposal, FINRA intends for the terms underlying the RSL designation to be interpreted consistently with their meaning in FINRA Rule 3110(f) and existing related guidance.<sup>37</sup> The requirements for designation of a location as an RSL, which are set forth in FINRA Rule 3110.19, include the following key elements:

- A location where supervisory activities are conducted shall be considered for those activities a non-branch location provided that:<sup>38</sup>
  - only one associated person (or members of the same immediate family) may conduct business at the location;<sup>39</sup>
  - the location is not held out to the public as an office;<sup>40</sup>
  - the associated person does not meet with customers or prospective customers at the location;<sup>41</sup>
  - any sales activity that takes place at the location complies with the conditions set forth under FINRA Rule 3110(f)(2)(A)(ii) (the primary residence exclusion<sup>42</sup>) or FINRA Rule

3110(f)(2)(A)(iii) (the non-primary residence exclusion<sup>43</sup>);<sup>44</sup>

- neither customer funds nor securities are handled at that location;<sup>45</sup>
- 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;<sup>46</sup>
- the associated person’s correspondence and communications with the public are subject to the firm’s supervision in accordance with FINRA’s supervision rule;<sup>47</sup>
- the associated person’s electronic communications are made through the member’s electronic system;<sup>48</sup>
- the member must have a recordkeeping system to make and keep current, and preserve records required to be made and kept current, and preserved under applicable securities laws and regulations, FINRA rules, and the member’s own written supervisory procedures under Rule 3110; such records are not physically or electronically maintained and preserved at the office or location; and the member has prompt access to such records;<sup>49</sup> and

- the member must determine that its surveillance and technology tools are appropriate to supervise the types of risks presented by each Residential Supervisory Location, and these tools may include but are not limited to: firm-wide tools such as, electronic recordkeeping system; electronic surveillance of email and correspondence; electronic trade blotters; regular activity-based sampling reviews; and tools for visual inspections; tools specific to the RSL based on the activities of associated person assigned to the location, products offered, restrictions on the activity of the RSL; and system tools such as secure network connections and effective cybersecurity protocols.<sup>50</sup>

- FINRA members shall not be eligible to designate an office or location as an RSL if, among other things, the FINRA member is designated as: (i) Restricted Firm under FINRA Rule 4111 or (ii) a Taping Firm under FINRA Rule 3170. Additionally, firms with suspended or new (effective less than 12 months) FINRA memberships or that

<sup>27</sup> See IEX Rule 5.110(f)(2)(B)(i)–(ix). The primary residence exclusion is also set forth in FINRA Rule 3110(f)(2)(A)(ii).

<sup>28</sup> See IEX Rule 5.110(f)(2)(C). The non-primary residence exclusion is also set forth in FINRA Rule 3110(f)(2)(A)(iii).

<sup>29</sup> See NASD [FINRA] Notice to Members 06–12 (March 2006).

<sup>30</sup> See IEX Rule 5.110(c)(1)(C) and Supplementary Material .13 to IEX Rule 5.110.

<sup>31</sup> See generally IEX Rule 5.110(f)(2)(A) and IEX Rule 5.110(f)(2)(D)–(G).

<sup>32</sup> See IEX Rule 5.110(f)(1)(D)–(G) and IEX Rule 5.110(f)(4).

<sup>33</sup> See IEX Rules 5.110(a)(4) and 5.110(c)(1)(A).

<sup>34</sup> See FINRA Regulatory Notice 24–02.

<sup>35</sup> See IEX Rule 5.110(c)(1)(C) and Supplementary Material .13 to IEX Rule 5.110.

<sup>36</sup> See FINRA Rule 3110(f)(2)(A)(ii)a., b., c., d., e., f., and i.

<sup>37</sup> See, e.g., NASD [FINRA] Notice to Members 06–12 (March 2006).

<sup>38</sup> See FINRA Rule 3110.19(a).

<sup>39</sup> See FINRA Rule 3110.19(a)(1).

<sup>40</sup> See FINRA Rule 3110.19(a)(2).

<sup>41</sup> See FINRA Rule 3110.19(a)(3).

<sup>42</sup> See IEX Rule 5.110(f)(2)(B)(i)–(ix).

<sup>43</sup> See IEX Rule 5.110(f)(2)(C).

<sup>44</sup> See FINRA Rule 3110.19(a)(4).

<sup>45</sup> See FINRA Rule 3110.19(a)(5).

<sup>46</sup> See FINRA Rule 3110.19(a)(6).

<sup>47</sup> See FINRA Rule 3110.19(a)(7).

<sup>48</sup> See FINRA Rule 3110.19(a)(8).

<sup>49</sup> See FINRA Rule 3110.19(a)(9).

<sup>50</sup> See FINRA Rule 3110.19(a)(10).

have been found within the past three years by the SEC or FINRA to have violated FINRA Rule 3110(c) are ineligible to participate.<sup>51</sup>

- An office or location shall not be eligible for designation as an RSL if one or more associated persons at such office or location:<sup>52</sup>

- is a designated supervisor who has less than one year of direct supervisory experience with the member, or an affiliate or subsidiary of the member that is registered as a broker-dealer or investment adviser;<sup>53</sup>

- is functioning as a principal for a limited period in accordance with FINRA Rule 1210.04;<sup>54</sup>

- is subject to a mandatory heightened supervisory plan under the rules of the SEC, FINRA or state regulatory agency;<sup>55</sup>

- is statutorily disqualified, unless such disqualified person has been approved (or is otherwise permitted pursuant to FINRA rules and the federal securities laws) to associate with a member and is not subject to a mandatory heightened supervisory plan under FINRA Rule 3110.19(c)(3) or otherwise as a condition to approval or permission for such association;<sup>56</sup>

- has an event in the prior three years that required a “yes” response to any item in Questions 14A(1)(a) and 2(a), 14B(1)(a) and 2(a), 14C, 14D and 14E on Form U4;<sup>57</sup> or

- has been notified in writing that such associated person is now subject to, any Investigation or Proceeding, as such terms are defined in the Explanation of Terms for the Form U4 (Uniform Application for Securities Industry Registration or Transfer), by the SEC, an SRO, including FINRA, or state securities commission (or agency or office performing like functions) (each, a “Regulator”) expressly alleging they have failed reasonably to supervise another person subject to their supervision, with a view to preventing the violation of any provision of the Securities Act, the Exchange Act, the Investment Advisers Act, the Investment Company Act, the Commodity Exchange Act, any state law pertaining to the regulation of securities or any rule or regulation under any of such Acts or laws, or any of the rules of the MSRB or other self-regulatory organization, including FINRA; provided, however, such office or

location may be designated or redesignated as an RSL subject to the requirements of FINRA Rule 3110.19 upon the earlier of: (i) the member’s receipt of written notification from the applicable Regulator that such Investigation has concluded without further action; or (ii) one year from the date of the last communication from such Regulator relating to such Investigation.<sup>58</sup>

- FINRA members that elect to designate an office or location of the member as an RSL shall provide FINRA with a current list of all locations designated as RSLs by the 15th day of the month following each calendar quarter in the manner and format as FINRA may prescribe.<sup>59</sup>

- FINRA members must conduct a risk assessment prior to designating an office or location as an RSL. Specifically, the FINRA member must develop a reasonable risk-based approach to designating such office or location as an RSL, and conduct and document a risk assessment for the associated person assigned to that office or location. The assessment must document the factors considered, including among others, whether the associated person at such office or location is now subject to: (1) customer complaints, taking into account the volume and nature of the complaints; (2) heightened supervision other than where such office or location is ineligible for RSL designation under FINRA Rule 3110.19(c)(3); (3) any failure to comply with the member’s written supervisory procedures; (4) any recordkeeping violation; and (5) any regulatory communications from a Regulator, indicating that the associated person at such office or location failed reasonably to supervise another person subject to their supervision, including but not limited to, subpoenas, preliminary or routine regulatory inquiries or requests for information, deficiency letters, “blue sheet” requests or other trading questionnaires, or examinations. The FINRA member must take into account any higher risk activities that take place or a higher risk associated person that is assigned to that office or location. Consistent with its obligation under FINRA Rule 3110(a), the member’s supervisory system must take into consideration any indicators of irregularities or misconduct (*i.e.*, “red flags”) when designating an office or location as an RSL. Red flags should also be reviewed in determining whether it is reasonable to maintain the RSL designation of such office or

location in accordance with the requirements of FINRA Rule 3110.19 and the member should consider evidencing steps taken to address those red flags where appropriate.<sup>60</sup>

#### Proposal

IEX proposes to adopt Supplementary Material .17 to IEX Rule 5.110. This proposed new supplementary material reads as follows:

**Residential Supervisory Location.** Notwithstanding any other provisions of IEX Rule 5.110(f), a location that is the private residence of a person associated with a Member where supervisory activities are conducted, including those described in IEX Rule 5.110(f)(1)(D) through (G) or IEX Rule 5.110(f)(2)(B), which satisfies the conditions for designation as a Residential Supervisory Location set forth in FINRA Rule 3110.19 shall also be considered a non-branch location for those activities pursuant to IEX’s Rules.<sup>61</sup>

As stated in proposed new Supplementary Material .17 to IEX Rule 5.110, any location that an IEX Member designates as an RSL pursuant to FINRA Rule 3110.19 shall also be considered a non-branch location for those activities pursuant to IEX’s rules.

Pursuant to this proposed rule change, IEX Members will be required to share information about designated RSLs with FINRA on a quarterly basis. IEX is not proposing to add the entire FINRA Residential Supervisory Location designation rule to its rules, because it would be unnecessarily duplicative and burdensome for IEX Members to share the same quarterly RSL designation information with IEX. Based upon conversations with FINRA staff, IEX understands that adopting Proposed Supplementary Material .17 to IEX Rule 5.110 would update IEX Rule 5.110 so that it remains substantially similar to FINRA Rule 3110, such that they remain common rules subject to the 17d–2 Agreement. As a result, regulatory responsibility for IEX Rule 5.110 would continue to be allocated to FINRA.

IEX, like FINRA, believes that the current work environment merits a reevaluation of the regulatory benefit of requiring firms to designate a private residence, at which specified supervisory functions occur, as an OSJ or branch office. IEX’s proposal to incorporate by reference FINRA’s RSL designation is intended to reflect a pragmatic balance between the hybrid workforce model and the parameters that should ensure that all locations,

<sup>51</sup> See FINRA Rule 3110.19(b).

<sup>52</sup> See FINRA Rule 3110.19(c).

<sup>53</sup> See FINRA Rule 3110.19(c)(1).

<sup>54</sup> See FINRA Rule 3110.19(c)(2).

<sup>55</sup> See FINRA Rule 3110.19(c)(3).

<sup>56</sup> See FINRA Rule 3110.19(c)(4).

<sup>57</sup> See FINRA Rule 3110.19(c)(5).

<sup>58</sup> See FINRA Rule 3110.19(c)(6).

<sup>59</sup> See FINRA Rule 3110.19(d).

<sup>60</sup> See FINRA Rule 3110.19(e).

<sup>61</sup> Proposed Supplementary Material .17 to IEX Rule 5.110.

including residential locations, are appropriately supervised.

Separate and apart from the classification of the office or location and the attendant inspection obligations, Members will continue to have an ongoing obligation to supervise the activities of each associated person in a manner reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable IEX and FINRA rules.<sup>62</sup> IEX, like FINRA, emphasizes that member firms have a statutory duty to supervise their associated persons, regardless of their location, compensation or employment arrangement, or registration status, in accordance with the IEX and FINRA rules.<sup>63</sup>

IEX notes that although FINRA's RSL designation first became available on June 1, 2024, the first action required by FINRA members is the October 15, 2024 deadline for submitting the first list of designated RSLs to FINRA.<sup>64</sup> As described below, IEX is seeking waiver of the 30-day operative delay for this rule change proposal, so that IEX Members that designate any locations as RSLs by October 15, 2024 will know that the designation also applies to IEX's supervision rules.

## 2. Statutory Basis

IEX believes that the proposed rule change is consistent with the provisions of Section 6(b)<sup>65</sup> of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>66</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Exchange's rule proposal is intended to harmonize IEX's supervision rules, specifically with respect to designation of certain non-branch offices as Residential Supervisory Locations, with those of FINRA, on which they are based. As discussed in the Purpose section, because Proposed Supplementary Material .17 to IEX Rule 5.110 incorporates by reference FINRA Rule 3110.19, this rule change enables IEX Rule 5.110 to continue to be incorporated into the 17d-2 Agreement, resulting in less burdensome and more

efficient regulatory compliance. Specifically, the proposed change will conform to the Exchange's rules to changes made to corresponding FINRA rules insofar as a Member's compliance with FINRA Rule 3110.19 shall mean the Member is also in compliance with Supplementary Material .17 to IEX Rule 5.110, thus promoting the application of consistent regulatory standards with respect to rules that FINRA enforces pursuant to the 17d-2 Agreement. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system in accordance with Section 6(b)(5) of the Act.<sup>67</sup>

### *B. Self-Regulatory Organization's Statement on Burden on Competition*

IEX does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not designed to address any competitive issue but rather to provide greater harmonization among IEX and FINRA rules of similar purpose, resulting in less burdensome and more efficient regulatory compliance for common members and facilitating FINRA's performance of its regulatory performance on the pending 17d-2 Agreement.

### *C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

Written comments on the proposed rule change were neither solicited nor received.

## **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A)<sup>68</sup> of the Act and Rule 19b-4(f)(6)<sup>69</sup> thereunder. Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-

4(f)(6) thereunder. In addition, the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing.<sup>70</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>71</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>72</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay to permit the Exchange to harmonize its rules with FINRA, as described herein, upon effectiveness of the proposed rule filing.

The Exchange stated that this proposed rule change is non-controversial because it does not present any new or novel issues. In particular, IEX is harmonizing its supervision rules with those of FINRA, on which they are based and which have been previously approved by the Commission. By conforming the Exchange's rules to FINRA's, the proposed rule change would promote the application of consistent regulatory standards with respect to rules that FINRA enforces pursuant to the 17d-2 Agreement. As such, the Exchange believes that the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system in accordance with Exchange Act Section 6(b)(5).

In addition, the Exchange stated that since FINRA first made its Residential Supervisory Location designation available to its members on June 1, 2024, waiving the 30-day operative delay would provide assurances to IEX members who wish to designate certain private residences as RSLs that they can plan the remainder of their 2024 inspection program under a harmonized rule set, particularly because the first list of designated RSLs is not due to FINRA until October 15, 2024,<sup>73</sup> while at the same time assuring that IEC members continue to perform their supervisory obligations. Further, the Exchange stated that waiver of the operative delay should avoid any

<sup>62</sup> See Supplementary Material .12 to IEX Rule 5.110.

<sup>63</sup> See 15 U.S.C. 78o(b)(4)(E) and 15 U.S.C. 78o(b)(6)(A).

<sup>64</sup> See FINRA Regulatory Notice 24-02.

<sup>65</sup> 15 U.S.C. 78f.

<sup>66</sup> 15 U.S.C. 78f(b)(5).

<sup>67</sup> 15 U.S.C. 78f(b)(5).

<sup>68</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>69</sup> 17 CFR 240.19b-4(f)(6).

<sup>70</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>71</sup> 17 CFR 240.19b-4(f)(6).

<sup>72</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>73</sup> See FINRA Regulatory Notice 24-02.

potential confusion that may otherwise occur on the part of IEX members as to the applicable rules governing inspections of branch offices and other locations. For these reasons, the Commission believes that waiver of the 30-day operative delay for this proposed rule change is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposed rule change operative upon filing.<sup>74</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)<sup>75</sup> of the Act to determine whether the proposed rule change should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-IEX-2024-19 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090. All submissions should refer to file number SR-IEX-2024-19. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<https://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements

<sup>74</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule change's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>75</sup> 15 U.S.C. 78s(b)(2)(B).

with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-IEX-2024-19 and should be submitted on or before October 30, 2024.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>76</sup>

**Vanessa A. Countryman,**  
*Secretary.*

[FR Doc. 2024-23286 Filed 10-8-24; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-101242; File No. SR-CboeEDGX-2024-060]

### Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Extend the Implementation Date of Functionality That Will Provide Members and Clearing Members With the Option To Utilize Additional Credit Risk Settings Under Interpretation and Policy .03 of Rule 11.10 ("Aggregate Credit Risk Checks")

October 3, 2024.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 26, 2024, Cboe EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule

<sup>76</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

Cboe EDGX Exchange, Inc. (the "Exchange" or "EDGX") proposes to extend the implementation date of functionality that will provide Members and Clearing Members with the option to utilize additional credit risk settings under Interpretation and Policy .03 or Rule 11.10 ("Aggregate Credit Risk Checks").

The text of the proposed rule change is also available on the Exchange's website ([http://markets.cboe.com/us/options/regulation/rule\\_filings/edgx/](http://markets.cboe.com/us/options/regulation/rule_filings/edgx/)), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The Exchange is filing this proposal to extend the implementation date of functionality providing Members and Clearing Members with the option to utilize additional Aggregate Credit Risk Checks. The functionality relating to these additional risk settings was submitted by the Exchange on an immediately effective basis on May 29, 2024.<sup>3</sup>

The Aggregate Credit Risk Checks offered under Interpretation and Policy .03 or Rule 11.10, provide Members and Clearing Members with additional, optional credit risk settings, at the Market Participant Identifier ("MPID")

<sup>3</sup> See Securities Exchange Act Release No. 100304 (June 10, 2024), 89 FR 50637 (June 14, 2024) (SR-CboeEDGX-2024-028).