

September 6, 2022

Vanessa A. Countryman, Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

*Re: Notice of Filing of a Proposed Rule Change to Adopt Supplementary Material .18  
(Remote Inspections Pilot Program) under FINRA Rule 3110 (Supervision); File Number  
SR-FINRA-2022-021*

Dear Ms. Countryman:

Vanguard Marketing Corporation (CRD#7452) (Vanguard)<sup>1</sup> welcomes the Financial Industry Regulatory Authority, Inc.'s (FINRA) proposal to implement a three year pilot program to study the impact and efficacy of remote inspections of offices of supervisory jurisdiction (OSJ), branch offices, and non-branch locations.<sup>2</sup> We appreciate and support FINRA's efforts to modernize its rules to account for advancements in technology and changes to business models in the wake of the COVID-19 pandemic. We write in support of the proposed pilot program, which we believe will promote an effective, risk-based inspections regime, and offer perspective on how supervision can evolve to further enhance investor protections.

Vanguard distributes Vanguard mutual funds and exchange traded funds to third party financial institutions and provides self-directed brokerage services to approximately eight million retail clients. Of Vanguard's nearly 6,200 active registered representatives,<sup>3</sup> approximately 5,700 operate in an inbound call center model for the purpose of servicing Vanguard's retail clients. The second largest population of registered representatives provides back-office operations support with limited engagement with clients. Consistent with other financial institutions, at the onset of the COVID-19 pandemic, nearly all Vanguard personnel began working from home.

Over the last two years, Vanguard has availed itself of the pandemic relief offered by FINRA Rule 3110.17, which allowed firms to temporarily conduct remote inspections of their office

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<sup>1</sup> Vanguard Marketing Corporation is a registered broker-dealer subsidiary of The Vanguard Group, Inc. (VGI). VGI is a leading global investment management organization that through its subsidiaries offers a large selection of low-cost mutual funds and exchange-traded funds and provides investment advice and related services to individual investors, financial professionals, and institutional investors.

<sup>2</sup> FINRA, *Notice of Filing of a Proposed Rule Change to Adopt Supplementary Material .18 (Remote Inspections Pilot Program) under FINRA Rule 3110 (Supervision)*, File No. SR-FINRA-2022-021, 87 Fed. Reg. 50144 (August 15, 2022).

<sup>3</sup> Vanguard has roughly 8,000 registered representatives, inclusive of those permissively registered.

locations. As pandemic challenges have eased, Vanguard has shifted its workplace model to incorporate greater flexibility for registered representatives to work from their personal residences as well as one of Vanguard's four primary locations.<sup>4</sup> In this hybrid model, our representatives are directed to work exclusively on Vanguard-controlled electronic systems through a secure network connection. None of our representatives meet with clients or handle customer funds or securities in their personal residences. Given the nature of our business model, we believe the activities conducted by most of our representatives in their residential offices would qualify their personal residences as low risk locations subject to a presumptive three-year inspection cadence, a proposition that would be rigorously tested and documented under the proposed pilot program's required risk assessment.

FINRA's pandemic relief has demonstrated the effectiveness of remote inspections. During the period while we have relied on the relief, Vanguard's remote inspections have identified results generally in line with the results of pre-pandemic in-person inspections. Some regulatory agencies have voiced concern that without in-person inspections firms have been incapable of identifying certain violations, including those related to the use of personal devices. However, as a practical matter, inspections are only a point-in-time approach to identifying issues or red flags. Certain "bad" behaviors are more effectively identified and controlled through ongoing surveillance or activity-based sampling review, which can be accomplished remotely, particularly when paired with effective policies, training, and performance management mechanisms for ensuring compliance.

The necessity of evolving our supervisory model to account for more remote registered representatives during an extended period of work from home also provided Vanguard the opportunity to evolve our oversight resources. These investments have resulted in additional tools to monitor representatives' behavior in real-time. We believe this experience demonstrates that remote inspections coupled with enhanced surveillance techniques and other controls can protect investors at least as well as a supervisory system that includes in-person inspections.

In the absence of a framework for remote inspections, Vanguard would need to register and physically inspect thousands of newly created residential offices upon expiration of pandemic relief or require our representatives to work exclusively from one of our four primary locations. Either option would entail new costs that ultimately would be borne by clients and our crew. Continuing to offer a remote work option would require thousands of registered representatives to make their personal space, including residences, available to inspectors. The invasion of personal space, in addition to the financial costs, associated with an in-home inspection requirement could create a chilling effect on many professionals like Vanguard's who are unfamiliar with these inspections given the rarity of them in a call center model prior to the pandemic. Alternatively, we could require all registered representatives to work exclusively from one of our four primary locations, but Vanguard is confident that, if faced with the need to pull

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<sup>4</sup> Vanguard principally operates out of headquarters located in Malvern, Pennsylvania with additional offices in the U.S. located in Charlotte, North Carolina, Scottsdale, Arizona, and Dallas, Texas.

back on our workplace flexibility, we will see a meaningful outflow of talent, in a workforce that has come to expect workplace flexibility. Additionally, we would lose the benefits of geographic diversity which creates a more competitive talent pool and provides more inclusive representation of the investor base our firm is seeking to serve. Finally, based on multiple sources of workforce research, we are also concerned a loss of flexibility could frustrate our diversity, equity, and inclusion efforts by creating a greater incentive for underrepresented populations to seek other industries offering the desired flexibility.<sup>5</sup>

Vanguard encourages the Commission to approve the proposed pilot program and consider this program in conjunction with FINRA's related proposal for Residential Supervisory Locations.<sup>6</sup> Given the uncertainty that would be created if Rule 3110.17 were permitted to expire prior to approving both proposals, Vanguard asks the Commission to approve both proposals in advance of the expiration of 3110.17 with an effective date and implementation timeline that provides us and others in the industry adequate time to comply.

Vanguard appreciates the opportunity to comment on this proposal and commends FINRA for its efforts to modernize the inspections regime. We encourage and welcome discussions with regulatory stakeholders on how our firm is adapting to a new workplace model and how we are evolving our supervisory capabilities and technologies to manage risks associated with registered representatives' activities, regardless of the location at which those activities are conducted. Vanguard believes that the rules should continue to be refined to account for an industry where firms have significantly different risk profiles, operating models, and technology resources, and that a risk-based approach to supervisory oversight, including inspections, can be designed to be nimble in an ever-changing workplace environment, focusing on the most effective means of supporting investor protections.

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<sup>5</sup> For example, earlier this year, McKinsey and Company published research that demonstrates how flexible work models are necessary if companies are serious about promoting diversity, equity, and inclusion efforts. The article listed the following populations as most likely to leave a company if flexible work arrangements were unavailable:

- Younger employees (18–34 years old) were 59 percent more likely to leave than older ones (55–64 years old).
- Black employees were 14 percent more likely than their White peers.
- LGBTQ+ employees were 24 percent more likely to leave than heterosexual ones.
- Women were approximately 10 percent more likely than men, and employees who identify as nonbinary were 18 percent more likely than men and women.
- Employees with disabilities were 14 percent more likely to leave than employees without them.

Bonnie Dowling, Drew Goldstein, Michael Park, and Holly Price. "Hybrid work: Making it fit with your diversity equity, and inclusion strategy." *McKinsey Quarterly*, April 20, 2022, <https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/hybrid-work-making-it-fit-with-your-diversity-equity-and-inclusion-strategy>.

<sup>6</sup> FINRA, *Notice of Filing of a Proposed Rule Change to Adopt Supplementary Material .19 (Residential Supervisory Location) under FINRA Rule 3110 (Supervision)*, File No. SR-FINRA-2022-019, 87 Fed. Reg. 47248 (August 2, 2022).

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If you have any questions or would like to discuss our views further, please contact me at [erica\\_green@vanguard.com](mailto:erica_green@vanguard.com) or [jacquelyn\\_nesbitt@vanguard.com](mailto:jacquelyn_nesbitt@vanguard.com).

Sincerely,

/s/ Erica Green

Erica Green  
Principal, Chief Compliance Officer  
Vanguard Marketing Corporation

cc: Chair Gary Gensler  
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Commissioner Caroline A. Crenshaw  
Commissioner Mark T. Uyeda  
Commissioner Jaime Lizárraga

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