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MSRB Amends Rule G-27 to Harmonize with FINRA and Adopt the Residential Supervisory Location Classification.

Washington, DC – The Municipal Securities Rulemaking Board (MSRB) today filed with the Securities and Exchange Commission (SEC) a proposed rule change to MSRB Rule G-27 on dealer supervision. The proposed rule change will allow Financial Industry Regulatory Authority (FINRA)-member dealers to designate an associated person's private residence where supervisory activities are conducted as a residential supervisory location (RSL), which will harmonize Rule G-27 with recently adopted amendments by FINRA. The rule change was filed today for immediate effectiveness and becomes operative on June 1, 2024.

"This amendment is an important milestone in the modernization of the regulatory framework for dealer supervision of municipal securities activities," MSRB Chief Regulatory and Policy Officer Ernesto A. Lanza said. "We recognize that the adopted amendments by FINRA are a sea change for the industry and are mindful of the need to promote regulatory consistency for dealers."

The RSL classification allows FINRA-member broker-dealers (dealers) the option to treat a private residence at which an associated person engages in specified supervisory activities, subject to certain safeguards and limitations, as a non-branch location. As a non-branch location, the newly defined RSL will be subject to inspections on a regular periodic schedule instead of the annual inspection currently required for offices of municipal supervisory jurisdiction (OMSJ) and supervisory branch offices.

To utilize the optional RSL classification, a dealer and the associated person assigned to each location must meet specified conditions and eligibility requirements, pursuant to Rule G-27. Additionally, the dealer must develop a reasonable risk-based approach to designating an office or location as an RSL and conduct and document a risk assessment for the associated person assigned to each office or location. Dealers must also provide a list of designated RSLs to FINRA, with the first list due to FINRA by October 15, 2024, covering all locations designated between June 1, 2024, and September 30, 2024.

"MSRB acknowledges that the way dealers conduct business has changed over recent years with an increasing move to hybrid workplace models," Lanza said. "We will continue to engage with stakeholders to better understand ongoing burdens and balance those burdens against the need for robust protection of investors."

In the coming weeks, MSRB expects to file an additional amendment to Rule G-27 with the SEC, allowing certain dealers to fulfill their office inspection obligations remotely for a pilot period through participation in FINRA's Remote Inspections Pilot Program.

Read the notice.

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