

Mediation Not Murder
Ten Tips for an Effective Securities Mediation

James D. Yellen*
Edward W. Larkin**

Securities mediation thirty years ago was an informal process with a neutral mediator to resolve disputes and save the expenses and unknowns of a hearing. The process evolved over time to a more contentious, litigious, and high stakes proceeding where both sides want to win. Murder by mediation. It doesn't have to be that way.

Below are some tips to prepare for and participate in an effective mediation so that adversaries come away with a fair and final settlement. It has been twenty-four years since the Securities Arbitration Commentator dedicated an entire issue to mediation: Tackling Obstacles to Mediation of Broker/Client Disputes was published in May 1994 and included the Defense Counsel's Perspective by Ted Krebsbach and the Claimant's

* James D. Yellen is the Principal of Yellen Arbitration and Mediation Services in New York, an Adjunct Professor of Legal Writing and Research at Fordham University School of Law, on the Board of Editors of the Securities Arbitration Commentator, and is Co-chair of the New York State Bar's Securities Law and Arbitration Committee. Prior to founding Yellen Arbitration and Mediation Services in 2006, Mr. Yellen was an Executive Director and Senior Attorney at Morgan Stanley, where he tried and supervised major arbitration and regulatory matters for the firm. Prior to Morgan Stanley, as an associate and then counsel at the law firm of Brown & Wood, Mr. Yellen has practiced securities litigation and arbitration for over thirty years. A *phi beta kappa* graduate of St. Lawrence University with a License in International Relations from the University of Nancy, France, Mr. Yellen received his law degree from Fordham University, where he was Managing Editor of the Fordham International Law Journal.

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** Edward W. Larkin is the director of Commercial and Criminal Litigation at Gibbons P.C. Prior to joining Gibbons, Mr. Larkin was a partner in the New York office of Baritz & Colman, and a member and Executive Director of Morgan Stanley's Law Division. With over twenty-five years of experience in the securities industry, Mr. Larkin has handled many arbitrations and mediations. While at Morgan Stanley, Mr. Larkin advised the firm's largest brokers and managers on a diverse range of issues including modifications to policies and procedures in response to regulatory initiatives. Prior to becoming a defense attorney for securities professionals, Mr. Larkin first worked at NASD. A graduate of Holy Cross College, Mr. Larkin received his law degree from Fordham University School of Law, where he was Managing Editor of the Fordham Urban Law Journal.

Counsel's Perspective by Roger Deitz. Both of these seasoned practitioners in securities mediation noted that, although mediation of securities disputes had gained some favor, efforts to increase the use of mediation had been met with limited success.¹

Now two decades plus later, does the mediation landscape look much different? We have witnessed the incredible run up of the markets through the spring of 2000 and again through 2018, and the tortuous, and only in hindsight, inevitable decline back to the mean. Claims follow the markets. Prior to the last conference dedicated to mediation, we were working through the end of the tech-wreck and correction claims that peaked in 2002 and 2003, and then slowed down through 2007.² Since that time, the 2008 Financial Crisis led to a peak of claims filed in 2009.³ While new claims have tapered off since then, FINRA still sees over 3,000 new claims per year.⁴

This year's program is a look back over the thirty years since Shearson v. McMahan started it all. In arbitrations, the results lead almost inevitably to one conclusion: some sharing of the loss by the party's in a securities dispute. Mediation of securities disputes provides parties with a voluntary, less adversarial and less formal process that should lead to a resolution in less time and for less money. Since mediation is voluntary and non-binding, the parties are free to withdraw from mediation at any time.⁵ Over the years there has been a trend toward a more litigious approach to

¹ See 6 Sec. Arb. Commentator, Vol. 4, at 1–7 (1994).

² Arbitration filings at the NASD from January 1 through March 31, 2006 reflect an 11 percent decrease from the comparable period one year earlier. See NASD's the Neutral Corner, April 2006 at 5. Filings at the NYSE share a similar decrease.

³ Following the financial crisis, in 2009, there were over 7,000 new claims filed with FINRA. See FINRA, Dispute Resolution Statistics, <http://www.finra.org/arbitration-andmediation/dipute-resolution-statistics>. (last visited Aug. 24, 2018).

⁴ In 2017, FINRA recorded 3,456 new cases filed, and through July 2018, there had been 2,578 cases filed. See id.

⁵ See generally Constantine N. Katsoris, Roadmap to Securities ADR, 11 Fordham J. Corp. L. & Fin. 476–78 (2006). Other leading articles on the topic are J. Boyd Page et al., The Role of Mediation and Early Evaluation in Facilitating Settlement Negotiations, PLI/Sec/Arb., Vol 2: Course Handbook Series No. B-899, at 60 (1995); Roger M. Deitz, Understanding Function, Use of Mediation, N.Y.L.J., Apr. 12, 1999; Joel E. Davidson, The Case for Mandatory Mediation of Securities Disputes, Sec. Arb. Commentator, Dec. 1998; Joel Davidson & Romaine L. Garner, Mediation: The Best Surprise is No Surprise, ABA Section of Litigation, Securities News, Vol. 7, No. 3, Fall 1997. For suggestions on how to make mediation more convenient and cost-effective, see

mediation.⁶ In response, FINRA has proposed recommendations for adjustments to the mediation program.⁷ The trend toward litigiousness in mediation has led to a process that looks more like arbitration than the less adversarial and less formal process that this program promotes.⁸

A high percentage of securities claims would benefit from the mediation process. We submit the following ten suggestions to increase the use and effectiveness of mediation.

1. Mediate early—experienced in-house counsel should be able to evaluate their claims by the time they submit the answer. Claimant’s counsel should also know enough to realistically evaluate the claim. Without large expenditure of time and money, this is the time post-filing when the customers and the firms can receive the most economic benefit from early evaluation and resolution. Early mediation provides the parties with the opportunity to resolve the claims before incurring significant outside counsel fees, before the parties’ positions become hardened, and before the protagonists have changed jobs. From the Claimant’s perspective, early closure is most likely better than late closure, assuming the settlement value

Christopher Kauders, Seven Steps to a Successful Telephonic Mediation, The Neutral Corner (FINRA, New York, N.Y.), Vol. 4–2017, at 1, 1–3. For the emerging use of mediations of international securities disputes, see Roger M. Deitz, International Securities Mediation, New York City Bar Securities Arbitration & Mediation Hot Topics 2006, at 170 (May 2006).

⁶ See generally, Jacqueline Nolan-Haley, Mediation: The “New Arbitration”, 17 Harv. Negot. L. Rev. 61, 91–93 (2012). For a discussion on the important differences between mediation and arbitration, see Jill I. Gross, Securities Mediation: Dispute Resolution for the Individual Investor, 21 Ohio St. J. on Disp. Resol. 329, 380–81 (2006).

⁷ See FINRA Disp. Resol. Task Force, Final Report and Recommendations of the FINRA Dispute Resolution Task Force (Dec. 16, 2015), at 55–56. For a discussion on the report, see Jill I. Gross, FINRA Dispute Resolution Task Force Releases its Final Report, with Support for Mediation and Live Hearings, 34 Alts. to High Cost Litig. 19 (2016).

⁸ See Brian A. Pappas, Med-Arb and the Legalization of Alternative Dispute Resolution, 20 Harv. Negot. L. Rev. 157, 200–03 (2015) (concluding that Med-Arb solutions to mediations will lead to the mediation process becoming more similar to formal litigation, thereby leading to the potential increase in cost and time, two issues that mediation was originally set out to solve). For suggestion on how to use the hybrid approach to arbitration and mediation in a less adversarial way, see Edna Sussman, Developing an Effective Med-Arb/Arb-Med Process, The Neutral Corner (FINRA, New York, N.Y.), Vol. 2–2018, at 1, 1–3.

- of the claims are in the same range. At a minimum, early mediation also helps focus issues and allows the parties to see their weaknesses realistically.
2. Client involvement—mediation provides the parties with the chance to see the other side and hear the claims or defenses first hand. It is an effective way to manage expectations from counsel's perspective. From the claimant's side, counsel often needs the mediation to provide a neutral and unvarnished view as to why the claims are not worth the damage numbers sought. From the respondent's view, often the branch manager or broker will not face the holes in the defense until a face-to-face mediation. Better at that time than on the eve of – or still worse at – the actual hearing.
 3. Prepare for the mediation—too many practitioners just “show up” with a brief opening statement and expect to let the game play out on its own inertia. The more prepared you are, the more effective you will be in controlling the process to your client's advantage. Mediation gives the parties real opportunity to impress the other side with the claims or defenses. If you are not prepared, the settlement range widens instead of narrows.
 4. Mediation is not war—it is a business meeting to probe mutually acceptable settlements. Due to the confidentiality strictures of the process, mediation can and should lead to frank discussions of a parties' strengths and weaknesses. At worst, even if no settlement is reached, you should learn and see enough at a mediation to fine tune your trial strategy and hone your themes or defenses.
 5. When to go to mediation—virtually all disputes except those with clearly no merit could benefit from mediation. The other limited scenarios where mediation may not be the appropriate course involves using mediation for delay (bad-faith), going to mediation unprepared or without authority, or cases in which you can settle directly with your adversary. Otherwise, mediation is predominately a win-win scenario for both parties.
 6. What style and level of experience should the mediator have—the rule of thumb for the respondents was always the stronger you evaluate your case, the more evaluative you want the mediator to be. We often put too much stock on the evaluation/facilitative monikers, and each mediation is so unique that the labels

are not as important as we think. That said, experienced practitioners do expect and are receptive to the true evaluation of a neutral and experienced mediator in answering the most simple but nuanced question—what is the case worth in front of the assigned arbitration panel, this set of lawyers, these witnesses and the facts of the case. We know all the industry statistics of what has come before. We don't know the particular magical chemistry of how our case will play out—will the claimant make it through cross, will the broker be liked and believed? Will the quiet arbitrator crumpled in tweed on the far left suddenly ask the killer question that sends all sides home reeling? A good mediator can bring order, or at least a good test run to the random chances of an arbitration proceeding. Good mediators are knowledgeable about the arbitration process and the best have served as arbitrators. That experience provides the parties with a window into the thinking of the arbitrators. In short, when you mediate, you take the arbitrary out of arbitration.

7. The vast majority of mediations end in settlement.⁹ There is objectively a “fair range” to resolve most disputes. The parties control the process. Rationality can be mutual. And adverse publicity in the public domain is awarded in mediation.
8. Mediation is far less costly than arbitration. Those savings alone are often enough to bridge the gap in effecting a settlement as opposed to spending more time and resources and eventually leaving your fate and control to a panel of arbitrators.
9. Management support is essential—why not have an institutionalized presumption of mediation unless responsible staff give a compelling reason why mediation is inappropriate. As noted above, the benefits of mediation vastly outweigh the downsides and mediation is appropriate in all but a few limited circumstances. The most compelling argument for mediation is simply that it works. That is why, although filings of securities claims are down, the use of mediation to resolve these disputes is up.

⁹ Industry statistics indicate that 75 to 85 percent of mediated claims settle. See FINRA, Dispute Resolution Statistics, <http://www.finra.org/arbitration-andmediation/dipute-resolution-statistics>. (last visited Aug. 24, 2018). Only ten percent of FINRA filings, however, utilize the FINRA's formal mediation program.

10. Mediation without mediators—experienced practitioners should have one finely tuned expertise—to evaluate cases. Mediators see it from a broader perspective, but also use similar matrices to ultimately form an opinion on what a case should settle for. Roll up your sleeves with your adversary and see if you can resolve it on your own. The SAC award base is there as a guide to set parameters. It can be done.

Conclusion

This year's program—a look back at thirty years of securities arbitration and mediation—should encourage, not discourage, the increasing use of mediation in FINRA customer and employment disputes. The parties control the process and take responsibility for the outcome of the dispute. Mediation provides the parties with a neutral and less adversarial avenue to resolve their claims fairly, efficiently and economically. Its use is and should be on the rise.