



Securities Arbitration Clinic
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Via Email To pubcom@finra.org

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street NW
Washington, D.C. 20006-1505

Re: Regulatory Notice 20-02: FINRA Requests Comment on the Effectiveness and Efficiency of its Reporting Requirements Rule

Dear Ms. Mitchell:

The St. John's University School of Law Securities Arbitration Clinic (the "Clinic") would like to thank you for the opportunity to comment on Regulatory Notice 20-02, in which FINRA requests comment on the effectiveness and efficiency of its reporting requirements rule. The Clinic is a curricular offering where students represent public investors of limited means in disputes against their investment brokers.¹ In addition to representing aggrieved investors, the Securities Arbitration Clinic is committed to investor education and protection. Accordingly, the Clinic has a strong interest in the rules governing the reporting and disclosure of information about customer complaints, claims, and settlements, and ensuring that the information is used to protect investors, safeguard market reliability, and ensure the integrity of the global financial system.

¹ For more information, please see <http://www.stjohns.edu/law/securities-arbitration-clinic>.

FINRA Rule 4530 (the “Rule”), requires firms to report statistical and summary information regarding customer complaints, legal claims, and settlements. FINRA uses the information for regulatory purposes to identify and initiate investigations of firms and brokers that may pose a risk. The Rule is both sufficient in some regards and lacking in others.

The Rule appropriately requires reporting of information beyond that which is required by the Uniform Forms, specifically the Form U-4, question 14I. Rule 4530(d) requires that statistical and summary information regarding any customer complaint be reported; whereas question 14I of the Form U-4 only requires disclosure of investment-related complaints, and sometimes only related to sales practice violations.

However, there are currently gaps in the Rule 4530 reporting requirements. For example, while Rule 4530(d) requires that statistics and summary information of all complaints be reported, 4530(a)(1)(G) requires that only settlements exceeding \$15,000 for an associated person, or \$25,000 for a firm, be reported. However, the median brokerage account size is around \$6,200.² By having such a high threshold amount for reporting settlements, a considerable number of settled complaints may go unreported. Moreover, due to the high threshold, brokers and firms may be not as careful or even may more freely commit wrongdoing against the average investor knowing that it is generally not economical for the client to bring a complaint (due to the cost of hiring an attorney) and even if one is brought, the outcome is unlikely to get reported due to the high threshold. For these reasons, the Clinic proposes an amendment to the rule requiring that all settlements be reported, regardless of the dollar amount.

Another gap in the Rule is that 4530(d) only requires the reporting of statistical and summary information of written complaints. However, a complaint about a broker may only be made orally, for example, when making a request for a new broker or closing an account. Verbal complaints may serve as an early warning sign to more significant or widespread misconduct. Accordingly, we suggest that FINRA consider expanding the disclosures to capture verbal complaints in addition to written complaints.

² Deloitte, Brokerage Accounts in the United States (2015); <https://www.dol.gov/sites/dolgov/files/EBSA/researchers/analysis/retirement/brokerage-accounts-in-the-us.pdf>.

In conclusion, the Clinic urges FINRA to eliminate the threshold amounts for reporting settlements and to require firms to report statistical and summary information for all written and oral complaints. Thank you for the opportunity to comment on this important rule.

Respectfully submitted,

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