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April 22, 2026

Financial Industry Regulatory Authority
Office of the Corporate Secretary
1700 K Street, NW
Washington, DC 20006

ATTN: Jennifer Piorko Mitchell

RE: Regulatory Notice 26-06 – Comment on Proposed Modernization of Arbitration Framework

Dear Ms. Mitchell,

Chelsea Morgan Securities d/b/a Chelsea Financial Services ("Chelsea"), respectfully submits this comment in response to Regulatory Notice 26-06. We recognize and support FINRA's initiative to reassess and modernize its arbitration regime. However, from the perspective of member firms, the current system has diverged materially from its intended function and now warrants comprehensive recalibration rather than incremental adjustment.

At its inception, FINRA arbitration was designed to provide an efficient, cost-effective alternative to court litigation - one that balanced accessibility for claimants with procedural fairness for respondents. In practice today, that balance has eroded. Proceedings have become increasingly protracted, expensive, and unpredictable, with outcomes that are often difficult to reconcile with governing law or regulatory standards. The resulting perception among member firms is that arbitration has evolved into a forum driven more by leverage dynamics than by disciplined adjudication.

The concerns outlined below reflect systemic issues that, if addressed, would materially improve the integrity, predictability, and fairness of the forum.

I: Arbitration Process Deficiencies

A. Opaque Decision-Making

A recurring issue is the absence of articulated reasoning in arbitration awards. Panels frequently issue conclusory outcomes without identifying the legal or regulatory basis for liability or damages. This lack of transparency undermines confidence in the process and deprives firms of the ability to evaluate or adjust compliance practices.

B. Proposed Corrective Measures

Chelsea recommends that FINRA require panels to include a baseline explanatory content in all awards. At a minimum, decisions should:

-Identify the specific rules, statutes, or regulations applied;

-Describe the conduct found to violate those provisions; and

-Provide a breakdown of damages, including methodology for calculating compensatory amounts, interest, fees, and costs.

These requirements could be implemented through structured award templates and codified through revisions to Rules 12904 and 13904. The objective is clarity—not verbosity—ensuring that outcomes are tethered to identifiable legal standards rather than generalized references.

C. Filing Fee Imbalance

The current fee structure imposes a disproportionate burden on respondent firms. A typical firm is required to pay a filing fee that is materially higher than that imposed on claimants, creating asymmetry in cost exposure at the outset of a proceeding. This disparity incentivizes the filing of marginal claims and contributes to overinclusive respondent naming practices.

Chelsea recommends either parity in filing fees or, at minimum, a recalibrated structure that meaningfully aligns claimant cost exposure with the seriousness of the claims asserted. Additionally, FINRA should adopt targeted fee-shifting mechanisms where claims are determined to be frivolous or facially ineligible.

II: Motion Practice Reform

A. Ineffective Early Dismissal Mechanisms

The absence of a robust pre-hearing dismissal framework allows meritless claims to proceed through full arbitration, imposing significant defense costs regardless of ultimate merit. This dynamic is particularly acute for smaller firms.

B. Recommended Framework

Adopt a structured motion-to-dismiss process analogous to Rule 12(b)(6) of the Federal Rules of Civil Procedure, permitting:

-Pre-answer motions addressing threshold defects (e.g., eligibility, lack of involvement, legal insufficiency);

-Early adjudication of "wrong respondent" scenarios; and

-Dismissal of claims that fail as a matter of law or are unsupported by documentary evidence.

Panels should be directed to resolve such motions at the earliest practicable stage to prevent unnecessary cost accrual.

III: Six-Year Eligibility Standard

A. Clarification as a Statute of Repose

FINRA's six-year eligibility rule should be expressly characterized as a strict statute of repose governing access to the arbitration forum. Claims arising from events outside this period should be categorically excluded.

B. Distinction from Limitations Periods

It is critical to distinguish forum eligibility from claim viability. Even where a claim falls within the six-year window, each asserted cause of action must independently satisfy its applicable statute of limitations.

C. Implementation Recommendations:

-Require dismissal of any claims predicated on events outside the six-year period;

-Prohibit revival of such claims through equitable doctrines alone; and

-Impose cost consequences where claimants advance clearly time-barred allegations.

This clarification would align arbitration practice with established principles in civil litigation and reduce uncertainty in threshold determinations.

IV: BrokerCheck Inaccuracies and Improper Party Naming

A. Data Integrity Issues

Current system limitations prevent correction of employment records once a Form U-5 is filed, resulting in persistent inaccuracies within BrokerCheck. These inaccuracies frequently lead to the naming of firms with no connection to the alleged conduct.

B. Practical Impact

Firms are routinely drawn into proceedings based solely on outdated or incorrect employment data, triggering immediate financial and legal burdens. This practice reflects a "maximum inclusion" strategy by claimant counsel, often untethered to actual liability.

C. Proposed Solutions:

-Enable post-U-5 corrections to employment data or provide parallel corrective entries;

-Require claimants to substantiate the inclusion of each respondent at the time of filing; and

-Mandate early resolution of improper party inclusion, including cost-shifting where appropriate.

V: Collateral Consequences of Arbitration Filings

A. Reputational Harm via Disclosure Obligations

Mandatory reporting of customer complaints on Form U4 creates immediate reputational exposure, irrespective of claim merit. Even unproven allegations can have lasting professional consequences.

B. Structural Incentives to Settle

Because disclosures persist and may be compounded by settlement activity, firms and individuals face pressure to resolve claims prematurely, irrespective of underlying validity.

C. Recommended Reforms

Reassess disclosure protocols to distinguish between:

-Allegations versus adjudicated findings;

-Settlements without admissions versus liability determinations; and

-Claims that are withdrawn or dismissed.

Additionally, FINRA should consider streamlined mechanisms for expungement or limited visibility of non-meritorious claims.

VI: Arbitrator Qualifications and Panel Composition

A. Deficiencies in Industry Expertise

There is widespread concern that many arbitrators lack current, practical knowledge of the securities industry, resulting in decisions that do not reflect operational realities or regulatory frameworks.

B. Inconsistent Outcomes

Variability in arbitrator composition contributes to inconsistent and, at times, disproportionate outcomes. The absence of meaningful appellate review exacerbates this risk.

C. Recommended Structural Changes:

-Requiring at least one industry-qualified arbitrator on every panel;

-Eliminating the option for all-public panels in customer disputes;

-Enhancing arbitrator training with emphasis on current industry practices; and

-Clarifying that arbitrators must ground decisions in applicable law and FINRA rules, rather than abstract notions of fairness untethered to the record.

VII: Summary of Priority Reforms

Chelsea respectfully urges FINRA to prioritize the following:

-Mandatory inclusion of at least one industry arbitrator on all panels;

-Strict enforcement of the six-year eligibility bar;

-Equitable restructuring of filing fees;

-Adoption of a meaningful motion-to-dismiss framework;

-Correction mechanisms for BrokerCheck inaccuracies; and

-Enhanced arbitrator training and accountability standards.

Conclusion

The current arbitration system requires structural recalibration. The issues identified herein - lack of transparency, procedural inefficiency, imbalance in cost allocation, and deficiencies in adjudicative rigor - collectively undermine confidence in the forum itself.

Implementation of the reforms outlined above would materially improve consistency, fairness, and alignment with the expectations of a modern dispute resolution system.

Respectfully Submitted,

Chelsea Morgan Securities
d/b/a Chelsea Financial
Services