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Via Email pubcom@finra.org

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1700 K. Street, NW
Washington, DC 20006

Re: ***Comment On FINRA Regulatory Notice 26-06 – Modernizing FINRA Arbitration Rules, Guidance and Process***

Dear Ms. Mitchell:

Thank you for the opportunity to comment. I am an attorney who regularly represents investment fraud victims in FINRA arbitration. FINRA Regulatory Notice 26-06 is deeply concerning and represents a great risk to the investing public. Many of the proposed recommendations involve changes to FINRA's arbitration rules to explicitly benefit Broker-Dealers at the expense of retail investors. These changes would betray FINRA's investor protection mission and allow the securities industry to escape accountability for damages created by industry members.

Eligibility and Motions to Dismiss

The current practice of allowing eligibility motions to dismiss potentially forces investors back into court years after filing, restarting their litigation from scratch and creating significant inefficiency. This is particularly problematic for long-term, illiquid products like private placements, alternative investments like non-traded REITs, and annuities, where the true value of the investment may not be revealed for years due to sponsors' ability to set and artificially mask Net Asset Values (NAV). In these cases, the "event" triggering the claim may be the realization of a massive loss years after the initial purchase, a nuance that rigid time bars might fail to capture. Furthermore, many states do not apply statutes of limitations to arbitration, viewing them as equitable proceedings. FINRA's rules already empower arbitrators to interpret and apply the Code, and introducing statutory limitations would create confusion and inconsistency. Interpreted correctly, the current eligibility rule, which focuses on the "occurrence or event" within six years, is flexible enough to account for ongoing fraud, continuing representation, and the delayed discovery of harm inherent in complex financial products.

The eligibility rule should not be amended to create a strict statute of repose. Such a rule would incentivize negligent supervision and reward bad actors who conceal fraud for extended periods. Many claims involve ongoing misconduct, such as long-tailed Ponzi schemes or continuous fraudulent account statements, where the harm is not discovered until years later. The current rule recognizes that investors interact with advisors continuously and may not be aware of harm due to the advisor's deception or the firm's failure to supervise. Tying the eligibility period strictly to the date of a securities transaction also ignores the reality that the claim often arises from subsequent fraudulent acts, such as the creation of fake statements or values to hide losses or other misrepresentations. The flexibility of the current rule allows arbitrators to analyze specific fact patterns, whereas a rigid statute of repose would potentially bar valid claims and undermine investor protection.

Arbitrator Qualifications, Classification, and Selection

I oppose FINRA's recent changes requiring a four-year college degree and five years of professional experience for arbitrators. These requirements arbitrarily disqualify a vast segment of the population – adults without a bachelor's degree. Further increasing minimum qualification requirements would artificially shrink the pool and increase reliance on repeat arbitrators. This move potentially creates an industry-tilted panel that is less representative of the investing public. FINRA arbitration exists as a substitute for the right to a jury trial. Therefore, the arbitrator pool should resemble a jury pool as closely as possible. Members of juries do not require specific subject matter expertise, nor do many judges. The new rules make becoming a part-time arbitrator more difficult than becoming a Series 7 licensed financial advisor, which requires no degree. The pool should be broadened to include anyone who has invested with a FINRA member and can complete the training, ensuring a true jury of peers.

Arbitrator Training

I support additional procedural training, such as refresher courses on ethics, hearing structure, and the role of the chairperson. Continuing education on FINRA rule changes and training to prevent late withdrawals would also be beneficial. However, this arbitrator training must remain focused on *procedure*, not substance. I oppose training that creates a hierarchy of customer claims, implying some are more important than others. All cases, whether involving a small retirement nest egg or a large trading account, deserve equal respect and dignity. Any additional training should focus on managing complex multi-party disputes or extensive document production, not on substantive legal distinctions or investment products. Such Training on elements of laws or complex investment products undermines FINRA's neutrality and risks putting a "thumb on the scale" regarding legal interpretations. Substantive issues should be left to argument by the parties' advocates and testimony of expert witnesses.

Discovery

The Discovery Guide is currently slanted in favor of respondents and must be amended to reflect the reality of the 2026 securities industry. While the Guide was a step forward from "adjudication by ambush," it is now outdated. Broker-dealers routinely abuse the process with boilerplate objections, particularly regarding exception reports and commission runs, often citing

the Gramm-Leach-Bliley Act incorrectly. FINRA must enforce the Guide more strictly, clarifying that objections to presumptively discoverable items are sanctionable misconduct. The Guide should be updated to mandate the production of entire compliance manuals, regulatory investigation documents (including FINRA 8210 requests and SEC Wells notices), and all communications including texts and emails relevant to the dispute and the products and strategy at issue which are frequently internal firm documents key to a fair process and search for the truth.

Punitive Damages

The current framework allowing arbitrators to award punitive damages must be maintained. Punitive damages are awarded in less than 1% of cases and serve the critical functions of punishment and deterrence. The industry's push to limit them is a reaction to a few high-profile cases in which the arbitrators clearly found justification for punitive damages based on outrageous conduct by the industry. Stripping arbitrators of the power to award punitive damages would shield serious misconduct from consequences and directly counter FINRA's investor protection mandate.

FINRA should not permit pre-dispute agreements that limit or preclude punitive damages. Such provisions would create a *Hobson's choice* for investors, forcing them to forfeit a critical remedy. This would create a perverse incentive for firms to engage in egregious misconduct, knowing they cannot be held accountable for punitive damages.

No caps on punitive damages should be imposed. State and federal laws already provide adequate safeguards and standards for awarding punitive damages. Creating separate FINRA standards would be redundant and unnecessary. I oppose additional procedural hurdles regarding punitive damages, such as bifurcated hearings or mandatory explained decisions. These would discourage arbitrators from awarding these rarely imposed damages and increase costs and delay resolution without adding meaningful protection, as state laws already impose standards for awarding punitive damages. Further, it is absurd to suggest that arbitrators are qualified to entirely dismiss a Claimant's case or even award damages against the Claimant in favor of the brokerage firm but the same arbitrator cannot be qualified to issue an award punitive damages against the brokerage firm. No additional or special qualifications are needed for issuing punitive damages awards.

Unpaid Awards

FINRA has failed to make substantive progress on the serious unpaid arbitration award problem for decades now. As of 2024, approximately 25% of investor awards remain unpaid, with roughly 37 cents on the dollar uncollected. These figures reflect a persistent structural deficiency rather than an isolated issue. The most effective solution would be a national investor recovery pool administered by FINRA, funded by member firms which is clearly feasible since FINRA has separately refunded $50 million and $100 million to the industry in the last ten months alone. Insurance mandates have been shown in states like Oregon to not reduce access to advisory services and should also be considered. FINRA should also pursue legislative changes to prevent bankruptcy discharge of unpaid awards and strengthen disclosure requirements.

The moral hazard argument against insurance or a recovery pool is unfounded. Bad actors are not incentivized to commit fraud by the existence of a safety net, as intentional misconduct is typically excluded from coverage and the pool would retain the right to pursue the bad actor. The unpaid award problem must be addressed regardless of the forum or the title of the financial professional.

CONCLUSION

I encourage FINRA to ensure that any changes considered to their rules would prioritize the strengthening of investor protection and integrity of the markets. FINRA should not make changes to placate its board or industry members as the expense of its mandated goal of investor protection. The core principles of fairness, transparency, and acting in the customer's best interest must remain intact and be upheld.

Very truly yours,

Keith L. Griffin