



April 29, 2026

Via Email Only to 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:

I am an attorney who regularly represents investment fraud victims in FINRA arbitration, including victims of misconduct committed by FINRA registered representatives and Broker-Dealers. I urge FINRA to stay faithful to its stated mission of investor protection and reject the vast bulk of the recommendations provided in FINRA Regulatory Notice 26-06. Many of these proposed recommendations involve changes to FINRA's arbitration rules to explicitly benefit Broker-Dealers at the expense of the investing public. **This creates an inequity in a system where fairness and equal access to redress should be fundamental.** The proposed changes would betray FINRA's investor protection mission and allow the securities industry to escape accountability for damages created by industry members.

Forum Selection/Customer Disputes (Requests for Comment A(i))

Proposals to differentiate procedural requirements or even allow FINRA member firms to select alternative arbitration forums to FINRA based on whether a claim is "complex" or "large" or the claimant is an "institutional" or "retail" investor are fundamentally flawed and dangerous. The distinction between these categories is often artificial and controlled by the FINRA member firm itself. Retail customers are frequently advised by their brokers to invest in the complex products or strategies at issue or to establish corporate entities or trusts to invest, ostensibly for estate planning or asset protection, or to access supposedly "elite" complex products. However, forming a single-member LLC does not alter the customer's actual sophistication or their reliance on the broker's advice. Crucially, customers are often unaware that this structural change may strip them of critical regulatory protections. Allowing rules to differentiate or allowing FINRA member firms to select alternative arbitration forums with fewer or no protections based on decisions made by the very FINRA member involved creates a perverse incentive for bad actors to exculpate themselves from misconduct. This would serve to lower the bar on investor protection.

Furthermore, FINRA should consider the critical distinction between pre-dispute and post-dispute variances. Pre-dispute variances inevitably lead to boilerplate contracts dictated by firms

that favor the firm's interests, as customers lack the leverage or knowledge to negotiate these terms. Conversely, allowing parties to manage the administration of their case post-dispute, when the customer is likely represented by counsel familiar with the process, poses less risk to the customer and allows for necessary customization. Allowing customers to unilaterally choose between arbitration and litigation post-dispute aligns with FINRA's obligation to protect investors. Allowing certain claims into industry hand-selected alternative arbitration forums would clearly not increase fairness for the customer; it would merely shift the venue to one where the power imbalance is even more pronounced. The current system, where customers can access FINRA arbitration regardless of the claim's nature, provides a necessary baseline of protection that would be eroded by such exclusions.

Eligibility and Motions to Dismiss (Requests for Comment B(i))

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.

Providing the industry with additional methods to dismiss cases would only increase abusive motion practice and prevent customers from having their cases heard on the merits. FINRA's own guidance discourages pre-hearing dismissals. Instead of adding more hurdles, FINRA should clarify that pleading standards in arbitration do not require court-style detail and should require discovery to be completed before motions to dismiss can be filed. This would ensure panels have a complete record to evaluate eligibility claims, preventing firms from using early motions to stifle discovery and delay justice. I do not support expanded changes to the timing or

circumstances for prehearing motions to dismiss. The current framework, which discourages such motions prior to the conclusion of a party's case-in-chief, is essential for fairness to the investing public. Allowing earlier or broader dismissal powers would further tilt the playing field in favor of member firms.

Arbitrator Qualifications, Classification, and Selection (Requests for Comment C & D)

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.

FINRA is required to have rules that are “designed . . . in general, to protect investors and the public interest.” 15 U.S.C. § 78o-3(b)(6). I oppose amendments to the definition of "public arbitrator" that dilute the independence criteria. The current disqualification criteria, such as the 20% professional time threshold and cooling-off periods, are essential guardrails. Individuals who spend a significant portion of their careers representing industry interests may develop a "defense-side" worldview. Expanding the roster to include "Industry-Lite" arbitrators would erode the legitimacy of the forum. The pool already skews toward an older, professional demographic. FINRA should focus on recruiting truly neutral professionals rather than lowering standards.

Rule 12403(c)(1)(A), which allows parties to strike all non-public arbitrators, should not be amended. This rule was a landmark victory for investor protection, addressing the systemic bias of the Rules previously requiring an industry representative on every arbitration panel. Reverting this rule would undermine the neutrality of arbitration panels and contravene FINRA's goal of investor protection.

FINRA should amend its rules to allow all claimants collectively and all respondents collectively to share the same number of strikes. This ensures that one side does not have an unfair advantage due to the number of separately represented parties. As long as the rule applies equally to both sides, it promotes impartiality.

Arbitrator Training (Requests for Comment E)

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 (Requests for Comment F)

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.

I oppose creating a new "discovery referee" or additional layer of bureaucracy. FINRA already has a robust code of arbitration procedure with eight rules dedicated to discovery. The problem is not a lack of rules but a lack of enforcement. FINRA should focus on training arbitrators to enforce existing rules, discourage boilerplate objections to the Discovery Guide, and sanctioning repeat violators rather than creating new administrative roles that could introduce industry bias.

FINRA must resist imposing further limitations on discovery. Access to potentially relevant information is a right, not a mere desire. Broker-dealers are required by SEC rules to maintain records in a readily available format, and cost objections should require evidence of an actual unreasonable burden.

The Discovery Guide must be amended to require the production of insurance coverage information upon request. In all federal courts and nearly all states, liability insurance disclosure is mandatory. The lack of this disclosure in FINRA arbitration is fundamentally unfair, as it prevents investors from assessing the collectability of an award and planning their strategy. The proposed amendment should require the production of policy declarations, the full policy, and any declination letters.

Hearing Oversight and Efficiency (Requests for Comment G)

FINRA should not create a central contact point to provide interpretive guidance. Such a resource risks arbitrators relying on FINRA staff for legal interpretations, blurring the line between administration and adjudication. Instead, FINRA should improve the clarity of existing resources and enhance training on procedural and evidentiary issues.

No new case management requirements are needed. The priority should be enforcing existing timelines and rules. Firms frequently fail to comply with discovery obligations, and arbitrators are often reluctant to impose meaningful sanctions. Strengthening enforcement mechanisms is more effective than creating new deadlines. If procedural benchmarks (like the scheduling of an Initial Prehearing Conference or final hearing) are not met, FINRA staff should automatically check in with the parties and panel to offer administrative assistance. This removes the pressure on parties to request help and ensures timely resolution without compromising arbitrator independence.

FINRA should develop a mobile app for counsel, improve billing integration to issue invoices promptly, and update the DR Portal to display docket information more clearly (similar to PACER) including filtering portal filings. The portal should also include specific filing types for common motions.

Punitive Damages (Requests for Comment H)

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.

I also strongly oppose an appeals process specifically for punitive damages. The Federal Arbitration Act and state laws already provide remedies for vacating awards due to corruption, fraud, or arbitrator misconduct. Creating a special appeals process for punitive damages would undermine the finality of arbitration and unfairly target outcomes unfavorable to firms.

Arbitration Awards Online (AAO) (Requests for Comment J)

The AAO database is a critical resource for parties, attorneys, researchers, regulators, and the public. It allows investors to research arbitrator track records, identify patterns of misconduct, and level the information asymmetry between repeat-player firms and one-shot investors.

FINRA should not amend its rules to permit the removal or redaction of awards from AAO. Transparency is essential for investor protection and regulatory oversight. The expungement process is flawed, with high approval rates and low opposition, and removing awards from AAO would create a "memory hole" that hides patterns of misconduct. Entire awards should remain public.

FINRA should enhance AAO by converting awards into structured, searchable data, integrating outcome analytics, linking awards to court actions and BrokerCheck profiles, and improving full-text search capabilities.

Unpaid Awards (Requests for Comment K)

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 considered changes 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.

FINRA's proposed rule changes are antithetical to FINRA's stated mission of investor protection. The proposed rules would relax supervision and reporting requirements in connection with the most frequently abused attack vector for fraud – Outside Business Activities. If these proposed rules are enacted, there will be more securities fraud and other misconduct causing untold harm to clients of FINRA Members.

FINRA's proposal creates serious problems. It creates unneeded supervisory exemptions that will increase the perpetration of Ponzi schemes, sales of unregistered securities, and other misconduct that will harm investors. FINRA has drastically overstated the burden to Members and Associated Persons of the reporting of non-investment related Outside Business Activities ("OBAs"). Requiring robust disclosures of OBAs ensures that the Member firm can properly evaluate OBAs for possible conflicts of interest with the firm's own business, and for risk of securities fraud which may take place through investment-related activities or even supposedly non-investment related work and OBAs. My experience representing investment fraud victims has been that registered representatives use a variety of OBAs to solicit investors for financing schemes, with a variety of outside businesses often described as non-investment related being used as the impetus for solicitation of investments. Associated Persons who sell away from their employing broker dealer commit violations of the securities laws, as the SEC has previously recognized. FINRA has long recognized the serious regulatory concerns of such misconduct. By reducing the requirements of reporting OBAs, FINRA makes it more likely that illicit conduct will take place unreported and unsupervised.

FINRA's rule proposal also significantly erodes the protection and oversight of associated persons who are also dually registered with the SEC as Investment-Adviser Representatives (IARs). FINRA's proposal to allow associated persons to conduct securities related activities without requiring FINRA members to supervise or record the activity on their books and records. However, many RIA firms are smaller in size and do not have the robust supervisory or compliance teams of FINRA broker dealers, often with the IARs serving as their own compliance officer. The impact of this rule change will be substantial, creating both the means and opportunity for unsupervised misconduct to take place without necessary guardrails in place to protect retail investors.

FINRA Rules 3270 and 3280 and NASD Notice to Members 91-32, 94-44, and 96-33 were designed to help firms reasonably achieve compliance with a member's supervisory obligations under the Exchange Act. A dually registered representative presents a high risk of using the RIA OBA to conduct unregistered broker-dealer activity. FINRA's proposal to exempt unaffiliated IAR's securities activities from member firm supervision fails to meet the reasonable supervision standard because it imposes no supervisory requirement at all. FINRA's proposal seeks to revoke prior guidance that provided firms with information necessary to achieve reasonable supervision of investment-related activity. FINRA's proposal creates an enormous blind spot in members' ability to supervise violations - not only of IAA violations but of the Exchange Act's registration requirements. This wound, self-imposed by FINRA and its desire to appease the securities industry, will fester for a generation, causing untold harm to retail investors, retirees, seniors, and veterans alike.

A dually registered representative can all too easily use his RIA to sell a private venture to a client without having the asset custodied in an advisory account or charged an advisory fee. The

IA may take custody of client funds or pass such funds on to a separate issuer for commission or other compensation uncharacteristic of IA compensation. The fact that the dually registered representative would claim that the activity occurred through the RIA would not be dispositive. In such cases the member firm would not be able to show that its registered representative's activity went through an unaffiliated IA as opposed to being unregistered broker-dealer activity. As shown above, preventing representatives from engaging in unregistered broker-dealer activity is one of the primary purposes of the selling away rule.

It has been my experience that registered representatives establish solo or small RIA firms and use OBAs to avoid member supervision to the harm of investors and for their own benefit. FINRA and the SEC have also repeatedly warned of the harms caused when lax supervision combines with investment activity in small, dispersed offices.

Over the course of my career, I have represented numerous investors in selling away cases in securities arbitration and litigation proceedings. **For instance, in 2024, I represented a 90-year-old widower and human rights activist who fled persecution abroad, only to come to the United States to be solicited by his trusted financial advisor to invest nearly \$900,000 into a private securities transaction. The brokerage firm failed to detect this unapproved transaction and my client suffered a near complete loss of his investment.**

In sum, I believe that FINRA is proposing a rule that will lead to industry non-compliance with the supervisory requirements of the Exchange Act and provide unscrupulous brokers with a road map to commit securities laws violations to the danger of members and the investing public alike, and I urge that FINRA's proposed rules be rejected.

Best regards,



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