

April 30, 2026

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1700 K Street, NW
Washington, DC 20549

Re: Regulatory Notice 26-06: FINRA Requests Comment on Modernizing FINRA Arbitration Rules, Guidance and Processes

Dear Ms. Mitchell:

LPL Financial Holdings, Inc. ("LPL") appreciates the opportunity to provide comments to the Financial Industry Regulatory Authority ("FINRA") in response to Regulatory Notice 26-06: FINRA Requests Comments on Modernizing FINRA Arbitration Rules, Guidance and Processes (the "Request"). We look forward to collaborating with FINRA as it reviews its regulatory requirements to modernize its rulebook applicable to members and associated persons.

While FINRA arbitrations play an important role in the securities industry and remain a primary forum for resolving disputes, improvements are needed to strengthen the integrity and predictability of the forum. We are generally supportive of comments submitted by The Securities Industry and Financial Markets Association (SIFMA) and the American Securities Association (ASA), but our comments will focus on reforms, particularly with respect to arbitrator qualifications, composition of hearing panels, and accountability of arbitrators, as well as treatment of punitive damages are necessary to ensure that FINRA arbitrations are fair, efficient, and support investor protection and market integrity.

I. Overview of LPL

LPL Financial Holdings, Inc. is a full-service wealth management firm and the parent company of two dually-registered FINRA Member independent broker-dealers ("BDs") and retail investment advisory ("IA") firms operating in all 50 states and territories. We are steadfast in our belief that Americans deserve access to personalized guidance from a financial professional. LPL serves as a trusted partner to more than 32,000 financial professionals and the wealth management practices at approximately 1,200 financial institutions, servicing and acting as a custodian for approximately \$2.4 trillion in brokerage and advisory assets on behalf of approximately 8 million Americans.

We provide our financial professionals with the technology, research, clearing, and compliance services and practice management programs they need to serve their clients and create thriving businesses. Our financial professionals offer investment and financial education, financial planning, access to investment products and brokerage services, and personalized investment advice to investors seeking wealth management, retirement planning, financial planning, and asset management solutions.

II. Comments on the Request

A. Arbitrator Qualifications, Classification, Selection, and Training

The quality, composition, and accountability of arbitrators are fundamental to the fairness and effectiveness of the arbitration process. While we commend FINRA for recent efforts to enhance arbitrator qualifications and training, additional reforms are necessary to ensure that arbitration panels are equipped to properly adjudicate increasingly complex disputes.

Industry Expertise on Panels

We strongly support reforms that would ensure that each arbitration panel includes at least one arbitrator with meaningful, current industry experience. The absence of industry expertise on panels can result in misunderstandings of firm operations, regulatory obligations, and market practices, which in turn may lead to inconsistent or unsupported outcomes, for investors as well as for firms. Requiring a non-public, or “industry,” arbitrator on every panel would provide a practical and balanced approach to improving decision making while maintaining neutrality.

Addressing Legacy Arbitrator Qualifications

We also encourage FINRA to address a significant gap in the current arbitrator pool. Although FINRA has recently raised employment and educational qualifications for incoming arbitrators, these changes do not apply retroactively. Because of this, existing arbitrators on the roster who do not meet FINRA’s current standards remain eligible to serve on panels.

This creates an uneven framework in which similarly situated cases may be decided by arbitrators with materially different levels of experience and qualifications. FINRA should evaluate mechanisms to align the existing arbitrator pool with current standards, including through requalification requirements, targeted training, or phased removal of arbitrators who do not meet updated criteria.

Strengthening Accountability and Performance Standards

Finally, we believe that stronger accountability mechanisms are necessary to ensure that arbitrators consistently meet their obligations. While evaluation processes exist, they do not appear to result in meaningful or transparent consequences for underperformance.

FINRA should consider implementing clearer performance standards and more robust enforcement mechanisms, including:

- Enhanced monitoring of arbitrator conduct and performance trends
- Mandatory remedial training for underperforming arbitrators
- Removal or suspension of arbitrators from rosters where appropriate
- Limitations on arbitrator withdrawals, particularly withdrawals that occur late in the process and without explanation to the parties

Establishing clear expectations and consequences for performance would promote better decision making and reinforce confidence in the arbitration process.

B. Limiting Punitive Damages

LPL also supports reforms to address the role of punitive damages in FINRA arbitrations.

Punitive damages raise unique concerns in the arbitration context due to the limited procedural safeguards and the absence of meaningful appellate review. Notwithstanding that punitive damages are a foundational legal construct; arbitrators are not strictly bound by the law in determining whether to issue punitive damages and have unlimited discretion to issue them. At the same time, arbitrators lack meaningful guidance on when to award punitive damages, and a panel's decision to award them is effectively unreviewable. As a result, even infrequent punitive rewards can have outsized and unpredictable impacts, particularly where decision making may vary significantly across panels.

To promote greater fairness and consistency, FINRA should consider permitting parties to limit or define the availability of punitive damages in pre-dispute agreements where permitted by applicable law. Alternatively, FINRA could evaluate the use of reasonable caps on punitive damages awards or guidelines tied to a multiple of any compensatory damages awarded.

Importantly, concerns regarding punitive damages are closely tied to arbitrator expertise and consistency. Where arbitrators lack sufficient industry experience or legal grounding, the risk of disproportionate or inconsistent awards is increased. Addressing arbitrator qualifications and accountability, as discussed above, is a critical component to any reforms in this area.

III. Conclusion

Thank you for your consideration as FINRA considers the proposed rule change.

Kind Regards,



Matthew Morningstar
Group Managing Director, Chief Legal Officer
LPL Financial