April 28, 2026

Submitted via https://datacollection.fnrw.finra.org/?notice_ref=378481 only.

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

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

Dear Ms. Mitchell:

Saxony Securities, Inc. ("Saxony") appreciates the opportunity to comment on FINRA Regulatory Notice 26-06 regarding the potential modernization of the FINRA arbitration process. Saxony is an independent broker-dealer headquartered in St. Louis, Missouri, with approximately 110 registered representatives located throughout the United States. The firm offers a range of investment products, including traditional securities, private placements, and direct business with mutual fund and annuity companies, and supports a number of dually registered representatives.

FINRA's role in protecting investors and maintaining the integrity of the markets is essential. At the same time, the arbitration forum must function in a manner that is fair, transparent, and predictable for all participants. Based on our experience, we believe there are opportunities to enhance the arbitration process in ways that continue to protect investors while also improving procedural fairness and confidence in outcomes for member firms and registered representatives.

Public Disclosure of Unproven Allegations (Rules 4530 and 8312)

FINRA's current disclosure framework appropriately emphasizes transparency for investors; however, the requirement to publicly disclose certain allegations prior to adjudication can, in some cases, result in significant and lasting reputational harm to registered representatives where the underlying facts do not support the claim. FINRA could improve this balance by incorporating additional context within BrokerCheck disclosures and by providing a more efficient and cost-effective pathway for the review and removal of clearly unsupported allegations.

Example: A clearing firm received a valid court order to seize assets in a client account to pay outstanding child support obligations. Upon the clearing firm's execution of the court order, the client filed a written complaint against the registered representative, alleging theft. FINRA rules require that we disclose this on the client's Brokercheck record, due to the theft allegation, although the registered representative had

nothing to do with the valid seizure of the funds. The disclosure remains on his license and has severely limited his options for employment.

Pleading Standards and Claim Specificity (Rules 12302 and 13302)

While preserving broad investor access to the arbitration forum remains an important objective, claims filed without sufficient factual specificity or clearly articulated damages can create inefficiencies, increase costs, and complicate case administration. From the broker-dealer perspective, the absence of baseline pleading standards can require respondents to defend against vague or generalized allegations, often necessitating extensive discovery to clarify fundamental aspects of the claim.

FINRA may wish to consider establishing more defined minimum pleading requirements at the outset of a case. At a minimum, statements of claim should include specific alleged conduct, identification of the individuals or entities involved, a clear theory of liability as to each named respondent, a calculation or reasonable estimate of damages, and the relevant timeframe in which the alleged harm occurred. Requiring this level of detail would better ensure that only properly supported claims proceed and would allow for more efficient evaluation of defenses and potential early resolution.

FINRA could also consider implementing a mechanism for addressing deficient pleadings early in the process, such as requiring amendment or supplementation before the case proceeds to full discovery. These refinements would improve fairness and case management, reduce unnecessary costs, and enhance the overall efficiency of the arbitration forum, while maintaining meaningful access for investors with legitimate, well-founded claims.

Eligibility Rule and Record Retention (Rule 12206)

The six-year eligibility rule can present practical challenges, particularly when claims arise near, or beyond, the timeframe in which broker-dealers are required to retain relevant records. In such cases, respondents may be disadvantaged by the absence of documentation necessary to fully evaluate or defend against allegations. FINRA may wish to consider enhanced arbitrator training and guidance on how to assess claims where key records are no longer available, with an emphasis on ensuring balanced evidentiary consideration and appropriate weight given to gaps caused by standard retention limits.

In addition, the current process can create inefficiencies and inconsistency in the application of Rule 12206. Claimants are not required to specify the date of the occurrence or event giving rise to the claim at the time of filing, which can result in the assertion of stale or time-barred claims. Respondents are then compelled to file motions to dismiss to address eligibility, yet arbitrators retain broad discretion in applying the rule, and such motions are frequently denied or deferred. This dynamic can lead to ambiguity regarding when the eligibility period begins, increased motion practice, and inconsistent outcomes across arbitration panels.

FINRA may wish to consider requiring greater specificity at the pleading stage regarding the timing of alleged misconduct, as well as providing clearer standards for arbitrators in evaluating eligibility

challenges. These refinements would promote more consistent application of the rule, reduce unnecessary procedural disputes, and better align the arbitration process with principles of efficiency and fairness, while maintaining appropriate access for timely claims.

Responsibility for Activities at Unaffiliated RIAs (NTM 94-44)

The increasing prevalence of dual registration has created ambiguity regarding broker-dealer responsibility for activities conducted at unaffiliated RIAs. Additional clarification from FINRA regarding the scope of supervisory obligations would help ensure that claims are directed appropriately and evaluated consistently. Often broker-dealers are named in arbitrations for activities that took place at the unaffiliated registered investment advisory firm which results in the broker-dealer serving as insurance against any losses incurred at the unaffiliated firm.
We are aware of the proposed rule change, and while this may reduce the instances of these scenarios going forward, it would be very beneficial if FINRA would further clarify if broker-dealers responsibility with unaffiliated registered investment advisors truly requires supervision only, or if those broker-dealers are fully responsible for all actions, and potential losses, that occur at unaffiliated IA firms.

Arbitrator Training and Decision Transparency (Rules 12401–12409)

Confidence in the arbitration process is strengthened when decisions are transparent, well-reasoned, and grounded in a clear understanding of applicable FINRA rules and industry practices. Providing more detailed explanations for key rulings—particularly on dispositive motions, evidentiary determinations, and liability findings—would promote greater consistency, facilitate meaningful review, and enhance predictability for all participants in the forum.

From the broker-dealer perspective, continued emphasis on arbitrator training is critical to ensure fair and informed decision-making. While FINRA has taken steps to enhance training programs, additional focus on substantive regulatory obligations, supervisory frameworks, and the practical realities of broker-dealer operations would be beneficial. Arbitrators who lack sufficient familiarity with the financial industry or the governing legal standards may be less equipped to evaluate complex claims, which can lead to inconsistent outcomes.

FINRA may wish to consider strengthening qualification standards and continuing education requirements to ensure that arbitrators possess an appropriate baseline of industry and legal knowledge. This could include more rigorous screening criteria, targeted training modules based on case complexity, and periodic competency assessments. These enhancements, coupled with greater decision transparency, would reinforce confidence in the arbitration process and support more consistent and equitable outcomes.

Motions to Dismiss and Party Inclusion (Rule 12504)

Clearer guidance regarding the standards for granting motions to dismiss, particularly in cases that are facially frivolous, involve improperly named parties, or relate to pre-affiliation conduct, would improve

efficiency and help ensure that claims proceed only against appropriate respondents. As currently applied, the rule's high threshold can limit the effective use of dispositive motions even where there is little or no nexus between the alleged conduct and the named party.

Broker-dealers frequently encounter claims in which individuals are named despite not being involved in the underlying events, including instances where the alleged conduct predates their association with the firm. Senior executives, such as CEOs or CCOs, are often included based solely on their titles, creating undue reputational risk and litigation pressure that may be used as leverage in settlement discussions. In such circumstances, requiring these parties to remain in the case through full proceedings imposes unnecessary costs and burdens without advancing investor protection objectives.

FINRA may wish to consider clarifying that dismissal is appropriate where there is no plausible factual basis linking a respondent to the alleged misconduct, including where claims are based solely on supervisory status without specific allegations of involvement. Providing arbitrators with more explicit authority to grant early dismissal in these limited circumstances, supported by clear standards and guidance, would promote more efficient case administration while preserving fairness to claimants.

These refinements would help ensure that the arbitration forum is used to resolve legitimate disputes against properly situated parties, rather than as a mechanism to exert settlement pressure through overbroad or unsupported party inclusion.

Fee Allocation and Forum Costs (Rules 12900 and 13900)

FINRA should consider whether current fee allocation practices appropriately reflect the relative merits of claims and the conduct of the parties. As applied, the framework can result in broker-dealers bearing disproportionate forum costs even where claims are dismissed, withdrawn, occurred at unaffiliated registered investment advisors or otherwise lack merit.

FINRA may wish to adopt more defined fee-shifting principles in circumstances involving clearly unsupported claims, procedural inefficiencies, or late-stage withdrawals. Additional guidance to arbitrators regarding factors such as claim reasonableness and party conduct would also promote greater consistency and transparency in cost allocation determinations.

Further, FINRA could evaluate whether reduced or capped fees are appropriate in matters resolved at early procedural stages. These refinements would better align forum costs with actual resource utilization while preserving investor access and the integrity of the arbitration forum.

Expungement Process (Rules 12805 and 13805)

While FINRA has made meaningful improvements to the expungement framework, particularly through heightened procedural safeguards and greater arbitrator scrutiny, additional refinements could further enhance both fairness and efficiency. From the broker-dealer perspective, the current process can still

impose significant time and cost burdens, even in cases where allegations are clearly erroneous, duplicative, or lack evidentiary support.

FINRA may wish to consider introducing a more streamlined pathway for expungement in narrowly defined circumstances where claims are demonstrably unfounded on their face or have been previously adjudicated with clear findings in favor of the associated person. For example, a preliminary review mechanism or expedited hearing track, subject to strict evidentiary thresholds, could allow arbitrators to more quickly dispose of meritless disclosures without requiring full evidentiary proceedings. Such a process would not only reduce unnecessary legal and administrative expenses but also mitigate the reputational harm that prolonged disclosure of baseless allegations can cause to registered representatives.

Importantly, any effort to increase efficiency should continue to preserve the core investor protection objectives of BrokerCheck. Safeguards such as independent arbitrator review, documented findings, and regulatory oversight should remain intact. However, calibrating the process to better distinguish between disputed claims and clearly unsupported allegations would improve the overall integrity of the system. By reducing friction in appropriate cases, FINRA can strike a more effective balance between transparency for investors and fairness to industry participants.

Conclusion

Saxony Securities appreciates FINRA's continued commitment to evaluating and strengthening the arbitration framework. We believe the recommendations outlined above would improve procedural efficiency, promote more consistent and transparent outcomes, and better align the forum with principles of fairness for all participants, while preserving robust investor protections. We respectfully encourage FINRA to consider these targeted refinements and would welcome the opportunity to engage further or provide additional perspective as part of the rulemaking process.

Respectfully submitted,

Saxony Securities, Inc.

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