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Schwab Reverses Ban on Client Class-Action Lawsuits.

May 16 (Reuters) – Charles Schwab Corp has temporarily reversed its requirement that clients waive their right to bring class-action lawsuits, adding a new twist in a battle closely watched by the securities industry and plaintiffs’ attorneys.

“Effective immediately, Schwab is modifying its account agreements to eliminate the existing class-action lawsuit waiver for disputes related to events occurring on or after May 15, 2013 and for the foreseeable future,” the San Francisco-based brokerage company said in a statement that was posted on its website on Wednesday.

Schwab still believes that arbitration is the best forum for clients to resolve disputes with the firm, but said it was backing off the litigation ban in deference to clients who are uncertain about their rights as it fights to defend its original ban.

Schwab’s right to stop clients from bringing coordinated court actions was challenged last year by the Financial Industry Regulatory Authority, the securities industry’s principal regulator. A FINRA hearing panel in February ruled that Schwab’s policy does violate FINRA rules but was consistent with federal law and recent Supreme Court interpretations of the Federal Arbitration Act.

FINRA is appealing the decision to the National Adjudicatory Council, its in-house appellate body.

“Given that the process will likely take considerable time to resolve, and may leave clients with a degree of uncertainty about their dispute resolution options in the meantime, we have elected to remove that uncertainty until the legal and regulatory process is completed,” Schwab wrote in its statement.

Consumer advocates, along with class-action lawyers, have blasted Schwab’s efforts to limit the lawsuits, saying many ordinary investors cannot afford to pay on their own for the cost of arbitration hearings.

In its statement, Schwab noted it will continue to pay arbitration fees for any investor who pursues an arbitration claim under \$25,000 against the company.

Public Citizen, a consumer watchdog group that has been circulating a petition asking Schwab to rescind the class-action ban, congratulated the company for its “responsible” decision. It said many of its 19,000 supporters who signed the petition also are Schwab customers who spoke directly to the firm.

Schwab last year asked its almost 9 million clients to sign new account agreements that agreed to waive their class-action rights. The revised policy followed settlements of such suits in which the firm agreed to pay \$235 million for misleading marketing of its YieldPlus money-market fund between May 2006 and March 2008.

Several U.S. legislators led by Senator Al Franken of Minnesota last month urged the Securities and Exchange Commission to prevent all broker-dealers from mandating that clients bring disputes only

through arbitration forums.

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