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House Democrat Introduces Bill to End Mandatory Arbitration.

Rep. Keith Ellison, D-Minn., a member of the House Financial Services Committee, has introduced legislation that would end mandatory arbitration in broker and investment adviser agreements with clients, but the bill faces an uphill battle.

The measure, floated Aug. 2, also would prohibit any restriction on class action claims.

Mr. Ellison said the bill, the Investor Choice Act, would help level the playing field for investors.

"Investors want to get back in the market, but they're rightly wary that the game is rigged against them," Mr. Ellison said in a statement to InvestmentNews. "Investors shouldn't have to sign away their rights in order to work with a financial adviser or broker dealer to build a secure retirement. By removing some of the unfair advantages, consumers will be more eager to invest, which will create jobs and strengthen the economy."

State securities officials have been pushing for an end to mandatory-arbitration clauses, which are part of nearly every brokerage contract. The Dodd-Frank financial reform law gives the Securities and Exchange Commission the authority to prohibit such agreements, but the agency has yet to propose such a rule.

The North American Securities Administrators Association, which has been calling on Congress to address arbitration, came out strongly in favor of Mr. Ellison's bill.

The measure would give investors the option of pursuing a case in court or in arbitration and would ensure that they could coalesce into a class action group. Small investors need such flexibility, according A. Heath Abshire, Arkansas' securities commissioner and NASAA's president.

"No attorney is going to take a \$50,000 securities fraud claim," Mr. Abshire said. "It's important that [investors] have a reasonable, effective and efficient forum to hear their claims."

Supporters of arbitration argue that it is the more successful and cost-effective venue for investor-broker disputes and broker cases against their firms. They say that court action can drag on for years and result in substantial legal costs.

Handled by the Financial Industry Regulatory Authority Inc., arbitration cases are heard by a panel of three adjudicators who are selected from a roster consisting of industry and public arbitrators.

Controversy over compulsory arbitration spiked this year when a Finra hearing panel ruled that the regulator couldn't stop The Charles Schwab Corp. from using the arbitration agreements to prohibit clients from engaging in class actions.

It's not clear how much congressional attention the issue will draw. As a Democrat on the Republican-majority House Financial Services Committee, Mr. Ellison will find it difficult to get a

hearing, much less a favorable vote.

Still, Mr. Abshure said Republicans should get behind Mr. Ellison's bill because it would help protect small investors able to participate in securities sales allowed by the Jumpstart Our Business Startups Act, a bill approved last year by large bipartisan majorities. That measure OK'd so-called crowdfunding, or online equity offerings.

"If the Republicans want to see the JOBS Act become a success, they better embrace this act," Mr. Abshure said, referring to Mr. Ellison's bill.