

FINRA Award Pool Bill Summary

This bill directs FINRA to use its existing authority to create a fund that compensates investors for unpaid arbitration awards against FINRA members.

According to a December 2015 report by FINRA's Dispute Resolution Task Force, investors were unable to collect more than \$62 million in unpaid arbitration awards in 2013 alone.¹ A subsequent study by the Public Investors Arbitration Bar Association determined that one-third of all arbitration awards in 2013 went unpaid, and that the \$62 million in unpaid awards represented nearly a quarter of the total amount of arbitration awards that year.²

FINRA — and its predecessor self-regulatory organizations — have let this problem continue for too long. A 2000 report from the non-partisan United States General Accounting Office found that 49 percent of investor arbitration awards in 1998 went entirely unpaid by broker-dealers and an additional 12 percent were only partially paid.³ Those unpaid awards cost defrauded investors more than \$100 million.⁴ GAO recommended that the self-regulatory organizations “develop procedures addressing the problem of unpaid awards caused by failed broker-dealers.”⁵ Yet, nearly two decades later, FINRA still has not established such procedures and investors have been unable to recover hundreds of millions of dollars owed to them.

Senator Warren asked then-CEO of FINRA Richard Ketchum about this issue at a Banking Subcommittee hearing in March 2016. Mr. Ketchum said it was an issue worth addressing and that FINRA would look into it. FINRA has not acted on it since.

This bill directs FINRA to establish a pool funded by penalties from member organizations that will provide adequate funds to pay unpaid final awards and track whether arbitration awards are paid.

¹ Final Report and Recommendations of the FINRA Dispute Resolution Task Force (Dec. 2015), at 50 (available at <https://www.finra.org/sites/default/files/Final-DR-task-force-report.pdf>).

² Public Investors Arbitration Bar Association, *Unpaid Arbitration Awards* (Feb. 25, 2016), at 7 (available at [https://piaba.org/system/files/pdfs/Unpaid%20Arbitration%20Awards%20-%20A%20Problem%20The%20Industry%20Created%20-%20A%20Problem%20The%20Industry%20Must%20Fix%20\(February%2025,%202016\).pdf](https://piaba.org/system/files/pdfs/Unpaid%20Arbitration%20Awards%20-%20A%20Problem%20The%20Industry%20Created%20-%20A%20Problem%20The%20Industry%20Must%20Fix%20(February%2025,%202016).pdf)).

³ United States General Accounting Office, *Securities Arbitration: Actions Needed to Address Problem of Unpaid Awards* (June 2000), at 5 (available at <http://www.gao.gov/assets/160/156962.pdf>).

⁴ Id.

⁵ Id. at 9.