

INVESTORS' NEGATIVE VIEW OF ARBITRATION SUPPORTS NEED FOR REFORMS

Monday, January 11, 2008 (Norman, OK). The Public Investors Arbitration Bar Association (PIABA), a national association of lawyers who represent investors in arbitrations against the brokerage industry, urges the Financial Industry Regulatory Authority (FINRA) and the Securities and Exchange Commission (SEC) to take immediate remedial action to reform mandatory investor arbitration in view of the results of a new survey confirming that investors view securities arbitration as biased and unfair.

The survey, conducted under the direction of the Securities Industry Conference on Arbitration (SICA), was in response to a 2002 evaluation of the fairness of arbitration funded by the SEC. The SEC-sponsored evaluation had recommended an empirical analysis of investors' perceptions of fairness in the arbitration process. SICA was created in the 1970s at the behest of the SEC to maintain a uniform code of arbitration procedure and to serve as a sounding board on issues of importance to the arbitration system.

Laurence S. Schultz, President of PIABA, said: "The SICA survey confirms once and for all that investors who have been involved in arbitration distrust the arbitration process and have concluded it is biased and unfair. And although the industry and FINRA may not like the results, they must accept them. The survey was sponsored and overseen by an independent organization with input from all participants in the arbitration process. Now it's time to make fundamental changes to make the system fair."

The survey received responses from over 3000 investors nationwide who had been involved in arbitration. Over 62% believed the arbitration process was unfair, 60% had an unfavorable view of arbitration, and 70% were dissatisfied with the outcome.

Schultz pointed out that these results should be of little surprise since well over half of investors who arbitrate their cases against the brokerage industry get a zero award; and based on a study of awards made in 2006, those who recover are awarded an average of just over 10% of the amount claimed. Worse yet, investors, whether they win or lose, are typically assessed fees by arbitrators which can run into several thousands of dollars.

FINRA, which is a member organization composed of over 5000 brokerage firms, runs the securities arbitration system and has long contended that investors perceive mandatory arbitration as fair. In contrast, PIABA has repeatedly challenged the fairness of securities arbitration and called for substantial reforms.

In December 2007 PIABA submitted written testimony in support of the Feingold Johnson Senate Bill to ban mandatory arbitration. PIABA has also called for an end to the FINRA rule which requires one of three securities arbitrators in every arbitration panel involving claims of over \$50,000 to be associated with the securities industry. And PIABA has requested that FINRA adopt new rules that will assure all arbitrators are free from industry associations. FINRA opposes all of these reforms.

"The time has come to clean up the investor arbitration system," said Schultz. The SICA survey has confirmed that the majority of investors who have been exposed to arbitration have little or no confidence in the process. Investors should no longer be forced to arbitrate in an unfair system run by the brokerage industry itself. And the travesty of mandating an industry arbitrator in virtually every case and allowing other arbitrators to have brokerage industry associations must end now."

The mission of the Public Investors Arbitration Bar Association, established in 1990, is to promote the interests of the public investor in securities and commodities arbitration by protecting public investors from abuses in the arbitration process; making securities and commodities arbitration as just and fair as systematically possible; and creating a level playing field for the public investor in

all securities and commodities arbitration forums. PIABA's written testimony in support of the Feingold Johnson Senate Bill to ban mandatory arbitration may be found at PIABA's Web site: piaba.org at the link designated "Congressional Testimony".

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