

Only Legislative Action Will Fix FINRA's Systematic Problems –

Issue: Self-Regulatory Organizations like FINRA have a positive impact on capital markets through robust rulemaking, regulation, and publication of best practices for broker-dealers and financial advisors. Because of its positive role in regulation, FINRA is worth fixing. FINRA's public-facing marketing mission is "to protect investors and safeguard the integrity of the U.S. capital markets to ensure that everyone can invest with confidence."¹ For too many years, FINRA has ignored critical components to meet this mission, especially as it relates to investor protection. The issues run deep and are systemic. Although given decades to adequately address several critical issues related to FINRA's mission, it has failed to act voluntarily, accepting far too much influence from the industry it is charged with regulating and supervising. Most alarming, recently, FINRA has taken major steps backwards, running into the arms of the securities industry.

First, FINRA has failed to address the scourge of unpaid arbitration awards for nearly thirty years. In 2024, 37 cents of every dollar awarded to investors went unpaid. Between 2020 and 2024, about \$80 million of FINRA arbitration awards went uncollected. This is not a new issue. In 2000, a GAO report found that 49% of FINRA awards went unpaid in 1998 with an additional 12% only being partially paid. In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 964 identified "arbitration services" as being a specific area of oversight for the SEC. According to a 2021 GAO report, the SEC failed to perform this necessary oversight of FINRA and its arbitration process.

Second, structural issues from the very top of FINRA have resulted in an unserious approach to unpaid awards and other serious investor protection issues. The FINRA Board of Governors is conflicted and stacked with securities industry members. It is these decision makers who, in the last two years, have authorized refunds to its Wall Street member firms totaling \$150 million, while investors struggle to collect arbitration awards against these very members. Likewise, in the last two years FINRA has taken material and dangerous steps to appease Wall Street through grossly influenced rulemaking and proposals which will put investors at risk, including a major revision to supervision rules that will expose investors to fraudulent misconduct and Ponzi schemes.

Proposed Solution: Congress must enact legislation that fundamentally alters the SRO model to ensure investor protection, market integrity, and public accountability. FINRA cannot exist as is, which as stated by former SEC Commissioner Hester Peirce, "FINRA is not subject to mechanisms comparable to those that hold government regulators accountable to Congress, the president, and the public."

1. **Reconstitute FINRA's Board of Governors and Require Public Appointment:** FINRA needs to be restructured from the top-down. Decades of corrupted leadership without any oversight leads to persistent systemic issues festering for decades. Legislation must require 1) that the Board be reconstituted to reduce the number of board members, with a minority of which are associated with a broker-dealer, and with a majority being members of the public; and 2) that these board members be appointed publicly by the SEC.
2. **Require FINRA to Take a Multi-Pronged Approach to Ensure Investors are Paid what They Are Owed:** FINRA must be forced by legislation to address unpaid awards. First, instead of refunding \$150 million to its members, Congress should require FINRA to establish a recovery fund to compensate investors who have obtained awards against FINRA members that have gone unpaid. Second, Congress must mandate that FINRA members maintain professional liability insurance, meeting minimum requirements established by the SEC. Third, Congress should mandate that any control-person or holding company that owns a broker-dealer, shall consent to the jurisdiction of FINRA Dispute Resolution.

ASK: We respectfully request that the Senator/Congressperson support legislation that materially reforms FINRA with an eye towards investor protection, public oversight, and accountability.

¹<https://www.finra.org/about#:~:text=About%20FINRA.%20FINRA's%20mission%20is%20to%20protect,ensure%20that%20everyone%20can%20invest%20with%20confidence.>