

February 6, 2017

Dear Representative:

The undersigned public interest organizations write in strong support of H.R. 585, to amend the Securities Exchange Act of 1934 to prohibit mandatory pre-dispute arbitration (or forced arbitration) clauses in contracts that investors often must enter into as a condition of receiving services from broker-dealers or investment advisers.

Most investors seeking brokerage and other financial advisory services are forced to surrender their right to go to court to resolve disputes with brokerage firms and investment advisers. This is particularly unfair for ordinary investors, such as families saving for retirement or their children's education, and who are unable to negotiate the industry's standard take-it-or-leave-it contracts. H.R. 585, sponsored by Rep. Keith Ellison and 11 original cosponsors, will restore investors' ability to choose how to resolve disputes after they arise, whether in court, arbitration or other dispute resolution proceedings. We urge you to co-sponsor this legislation.

Forced arbitration deprives investors doing business with brokerage firms and investment advisers of the right to a judge and jury. Investor disputes with brokers, for example, are administered in arbitration proceedings operated by the Financial Industry Regulatory Authority (FINRA), a regulatory body controlled by the securities industry. Investment advisers also require disputes to be resolved in private forums such as the American Arbitration Association or JAMS. Investors with disputes do not receive open, public hearings and the process offers little opportunity for judicial review of arbitrators' errors, even if egregious. Brokers sometimes settle investors' claims of wrongdoing, but settlements are often for far less than the harm and loss caused by the wrongful conduct.

Further, industry-run arbitration deprives investors of the benefits of the law because private arbitrators may disregard it in their decision making. Disputes resolved in private arbitration systems also stunt development of often-complex legal policy for the securities sector because written decisions may not be required, are not public, and have no precedential value in other cases. The secret proceedings also hurt future investors who then lack sufficient information to properly evaluate firms' and individuals' records. As long as brokerage firms and investment advisers can force investors to resolve disputes in arbitration, FINRA's and other private arbitration forums will remain inherently biased against investors.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was enacted after the 2008 financial crisis to protect consumers and investors from abusive financial services practices. The Act included, among other safeguards, numerous provisions to enable certain consumer and investor-related claims from being forced into arbitration. It gave the Securities and Exchange Commission (SEC) authority to limit or prohibit forced arbitration for investors. The SEC has not acted. Passage of H.R. 585 will restore fundamental legal protections to Americans who use broker and investment advisory services to help reach their financial and retirement goals.

We urge you to co-sponsor this legislation.

Sincerely,

American Association for Justice
American Family Voices
Center for Justice and Democracy
Center for Responsible Lending
Consumer Action
Consumer Federation of America
Consumers Union
Consumers for Auto Reliability and Safety
D.C. Consumer Rights Coalition
Florida Alliance for Consumer Protection
Homeowners Against Deficient Dwellings
National Association of Consumer Advocates
National Consumer Law Center (on behalf of its low-income clients)
National Employment Lawyers Association
Public Investors Arbitration Bar Association
Public Justice