



SECURITIES AND EXCHANGE COMMISSION

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COMMISSION APPROVES RULES TO IMPLEMENT UNIFORM INVESTOR DISPUTE RESOLUTION SYSTEM

The Commission approved today rules which will be the first step in implementing a uniform, simplified, nationwide system for the resolution of disputes between individual investors and broker-dealers.

The rules approved today will allow implementation of the system in disputes over relatively small dollar amounts and involving broker-dealers who are members of the New York or American stock exchanges. The Commission expects to consider in the near future similar rule proposals by other self-regulatory organizations in order to implement this system on a nationwide basis.

The substance of the new system was developed by a conference of securities industry representatives and members of the public, in response to the Commission's concern that individual investors have access to simple, inexpensive, efficient, and fair procedures for the resolution of disputes.

Chairman Harold M. Williams said he believed the system would "improve significantly the opportunity for individual investors, particularly small investors, to resolve disputes with broker-dealer involving relatively small amounts." "Arbitration," he added, "may become a frequently used alternative to litigation if investors are willing to use it and are satisfied that it is being fairly administered."

The Commission's efforts to improve investor dispute resolution systems began on June 9, 1976, when the Commission invited public comment on the need for and desirable attributes of a uniform nationwide investor dispute resolution procedure. The Commission held hearings to receive testimony on this matter in July of 1976, after which the Commission's Office of Consumer Affairs prepared a staff report on existing dispute resolution systems and various alternatives.

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The Commission approved the staff report in principle in November of 1976, and in February of 1977 held further hearings. During the course of those hearings various securities industry organizations requested an opportunity to formulate a plan for a uniform dispute resolution system incorporating the existing elements of the arbitration facilities operated by a number of the securities exchanges and the National Association of Securities Dealers, Inc. ("NASD"). On April 26, 1977 the Commission announced that it would consider proposals for a uniform dispute resolution procedure to be generated by a conference or task force of securities industry representatives and members of the public. That conference was formed and is called the Securities Industry Conference on Arbitration ("SICA").

SICA includes representatives of all of the major securities exchanges, the National Association of Securities Dealers, Inc. ("NASD"), the Municipal Securities Rulemaking Board ("MSRB"), the Securities Industry Association ("SIA"), and three representatives of the investing public. SICA is expected to formulate plans for a uniform arbitration code, of which the small claims procedure approved today would be a part. The uniform arbitration code is expected to be adopted in similar form by all of the securities industry self-regulatory organizations which offer arbitration facilities for disputes between investors and broker-dealers (subject to Commission approval of all amendments to the rules of such organizations).

The rules related to the small claims resolution procedure are summarized below. Differences between the NYSE and AMEX proposals are due primarily to administrative differences between the exchanges, and differences in the formats of organizational documents.

The key characteristics of the small claims proposals are:

- simplified arbitration for claims of less than \$2500;
- a uniform filing fee of \$15, which is lower than most current fees;
- the procedure may only be initiated by the customer or with his express consent; and
- the controversy may be decided by a single arbitration without a hearing, on the basis of pleadings and documentary evidence.

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The claimant initiates the proceeding by filing with the Director of Arbitration for the appropriate self-regulatory organization a submission agreement and a copy of his or her statement of claim, including all relevant facts, remedies sought and whether or not a hearing is demanded. The claimant also pays a fee of \$15, which the arbitrator may decide to refund to the claimant. The Director of Arbitration then serves on the broker-dealer involved, copies of the submission agreement and statement of claim. After the broker-dealer files an answer to the claim, it is served on the claimant. Counterclaims and third-party claims are permitted in the interest of economy. However, in the event that a counterclaim or third party claim exceeds \$2500, the arbitrator may refer such claim to a panel of three or five arbitrators, or dismiss the proceeding without prejudice to the parties. Further, if any counterclaim exceeds the original claim, the claimant may elect to withdraw from the arbitration proceeding.

The Arbitration Director is responsible for selecting the arbitrator, who must be knowledgeable in the securities industry. In most cases, the single arbitrator would be expected to decide the controversy based on the written pleadings and evidence without a hearing. It is expected that NYSE and AMEX personnel will, where possible, choose arbitrators who are knowledgeable but are not affiliated with the securities industry, so as to enhance the appearance of fairness to investors. Standards for the qualifications of arbitrators are expected to be enunciated by SICA in the near future, in order to clarify the meaning of the phrase "knowledgeable in the securities industry."

The Commission will oversee the operation of the small claims program, and SICA is expected to continue to meet for the purpose of generating proposals for a uniform arbitration code for larger amounts and to consider any necessary adjustments to the small claims program. In addition, the self-regulatory organizations will distribute easy-to-understand explanatory booklets to investors who wish to utilize the system.

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