

SENATE BILL REPORT

SB 5182

AS REPORTED BY COMMITTEE ON LABOR & COMMERCE, FEBRUARY 15, 1993

Brief Description: Providing for the resolution of disputes arising from securities dealings.

SPONSORS: Senator Moore

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: Do pass.

Signed by Senators Moore, Chairman; Prentice, Vice Chairman; Fraser, McAuliffe, Pelz, Prince, and Vognild.

Staff: Benson Porter (786-7470)

Hearing Dates: February 3, 1993; February 15, 1993

BACKGROUND:

Securities broker-dealers generally require new clients to enter new account agreements. Some of these agreements contain a clause that requires any future disputes between the broker-dealer or client to be resolved through arbitration. Although some states have attempted to impose regulations concerning the arbitration agreements, the courts have held these specific state regulations to be preempted by the supremacy clause and the federal Arbitration Act. Nonetheless, the state may be able to regulate securities arbitration agreements in situations where fraud or enormous economic imbalances exist.

SUMMARY:

Securities clients are granted certain rights in the selection of an arbitration panel assembled to resolve a dispute between the client and a securities-broker.

A securities client may elect to have any future disputes between a securities broker-dealer and the client be governed by a civil action or arbitration.

If the client elects arbitration and no client input is provided in the arbitrator's selection, the client may elect to have a three person arbitration panel. This panel is comprised as follows: one person selected by the client, one person selected by the broker-dealer, and one person selected by the mutual agreement of the client and broker-dealer.

Appropriation: none

Revenue: none

Fiscal Note: none requested

TESTIMONY FOR:

By allowing customer input in the selection of arbitrators, the impartiality of the arbitration panel will be promoted.

TESTIMONY AGAINST:

Other state efforts concerning the securities arbitration process have been held unconstitutional as violating the supremacy clause.

TESTIFIED: Mark Greenberg, SIA (con); Jack Beyers, Mike Stevenson, Securities Division (pro); Walt Corneille, International Association of Financial Planners