



TOP NEWS

UPDATE 1-Schwab drops ban on clients filing class-action lawsuits

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(Adds Schwab comment, details throughout)

By Jed Horowitz and Suzanne Barlyn

NEW YORK, April 24 (Reuters) - Charles Schwab Corp has dropped a fight to require customers to waive their rights to participate in class action lawsuits, the company said on Thursday.

Schwab, the San Francisco-based pioneer discount brokerage, has agreed to pay \$500,000 to the Financial Industry Regulatory Authority for violating the group's arbitration rules when it barred clients in 2011 from joining class actions. It had more than 6.8 million clients then, and now has more than 9 million.

In 2013, a FINRA hearing panel said Schwab's class-action ban was valid under the Federal Arbitration Act, even though the ban violated the group's own rules. On Thursday, FINRA's board overturned that finding, determining that the federal act does not preclude FINRA from enforcing its rules.

"We are pleased to resolve this dispute with FINRA, and to put to rest any client concerns on this issue," Schwab said in an e-mailed statement that noted it has removed the waiver from its account agreements.

"Over the last year, we heard clearly that a number of our clients and members of the general public have strong feelings about maintaining access to class-action lawsuits. In a business like ours where our reputation and public trust are key to our success, we take perspectives like those very seriously."

Schwab could have fought the decision in court but decided it was more expedient to settle, said people familiar with its decision. It also failed to rally support from other companies in the securities industry, despite their long-held opposition to litigating in courts rather than in arbitration.

"We believed, and still believe, that FINRA arbitration is the best means for investors to resolve disputes with their brokerage firm, but we will maintain their access to class action lawsuits should they prefer that option," Schwab said.

Plaintiffs' lawyers and consumer advocates, who have been waging an unsuccessful fight against a range of class-action waiver agreements in other types of consumer contracts, had rallied support among Schwab clients. They argued that arbitration cases are often too expensive for small investors to bring on their own, and that public court cases can shine light on abusive sales practices while FINRA arbitrations are private.

"It's a huge victory for investors," said Christine Hines, consumer and civil justice counsel at watchdog group Public Citizen, which organized a public campaign to oppose the Schwab waivers and mandatory arbitration clauses in consumer contracts.

"I think other brokerage firms will be deterred from including class action waivers in their contracts," Hines said.

"Schwab overreached," said Joseph Peiffer, a lawyer in New Orleans who represents investors.

The FINRA appeals panel also upheld the hearing panel's rejection of Schwab's attempt to prohibit clients from participating in group arbitrations.

Critics of class-action cases argue that are often frivolous, and that settlements often yield very low sums to each plaintiff while generating hefty fees for lawyers.

Schwab's attempt to ban customer class-action lawsuits followed its \$235 million settlement of a class action charging it misled thousands of clients about its YieldPlus money-market fund, which had huge losses during the financial crisis in 2008. (Reporting By Jed Horowitz; Editing by Steve Orlofsky and David Gregorio)

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