

INVESTMENT NEWS

VIEWPOINT/Letters

3/17/08

The article "State regulators defend arbitration study findings" (2/25/08), reported that the Financial Industry Regulatory Authority Inc. and the Securities Industry Financial Markets Association ... said the response rate of 13% for a ... study about the arbitration process was too low.

FINRA consists, in part, of the recently combined NASD and New York Stock Exchange's regulation unit. The study, conducted by the Securities Industry Conference on Arbitration deals with the arbitration processes at the NYSE and NASD.

SICA's prime members were the NASD and NYSE, which financed the "study."

The "study" addressed the issue of a low response rate by stating, "The preferred method to test whether non-response bias exists in survey data is to conduct telephone interviews of a random sample of contacts who did not respond to measure whether their answers to the survey questions are statistically significantly different from the survey participants. While we recommended conducting such a follow-up study, due to time and resource constraints, SICA did not endorse that recommendation. As a result, we cannot state with certainty whether there is, in fact, any non-response bias in the survey data."

The "study" did not explain the meaning of "time and resource constraints," or why SICA "did not endorse that recommendation."

The telephone interviews might have determined whether it was a mistake to rely upon NASD or NYSE "logistical assistance." The NASD and NYSE exercised much control over the survey mailing process. "NASD and NYSE generated a combined database.... Of those contacts, 4,710 surveys were either returned to SRI or otherwise not deliverable due to insufficient address. ... We subsequently determined that at least 1500 of those contacts were duplicates," the study said.

It appears that FINRA voluntarily disabled itself from completing this important task and excuses undesired findings on the basis that the "study" is incomplete.

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