**Investment and Advisory Services**

Via Email Only
pubcom@finra.org

Jennifer Piorko Mitchell
Office of the Corporate Secretary FINRA
1735 K Street, NW
Washington, DC 2006-1506

Re: Regulatory Notice 18-22

Centaurus Financial, Inc. ("CFI") opposes FINRA's proposed rule 18-22, which would require firms and associated persons to produce third-party insurance coverage information. We believe this proposed rule will negatively affect the protection of consumers by discouraging firms from maintaining Errors and Omissions insurance coverage ("E&O"), as this rule will increase the cost of insurance and incentivize brokerage firms to undercapitalize and under-insure in order to achieve reduced settlements.

As an initial matter, FINRA customer arbitration should focus on the harm suffered by the claimant, not the ability of a firm to pay. While the rule seeks to limit the admissibility of insurance coverage at the hearing, it provides no penalty for a claimant representative seeking to introduce such evidence at a hearing. It is doubtful to assume that arbitrators will not be influenced by the availability of coverage, which is problematic for many reasons, not the least of which is the fact that availability of coverage is often in dispute between insurer and insureds. This fact will likely not be fleshed out for arbitrators, resulting in a very real possibility of bias which in many cases could be misplaced due to the complexities of insurance coverage. Further, based on the reasoning of the FINRA notice which seeks to allow for a more effective "customer litigation strategy," the production of coverage (or lack thereof) will likely take center stage during settlement discussions rather than the subject of who is at fault.

It is of note that FINRA does not require E&O coverage. Forcing firms to automatically produce information relating to their E&O coverage when it is not at issue will likely have a negative effect on the industry and encourage firms not to obtain coverage or under-insure. This will create a perverse incentive for customer representatives to seek coverage limits and target those firms that have made the responsible decision to obtain coverage. Further, insurance companies often force a matter to settle when it may not be in the business interest of the

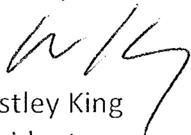
broker-dealer or registered representative, especially on nuisance value cases, but it may be in the economic interest of the insurer in saving on litigation costs. While this may achieve the goal of assisting customer representatives in forming a litigation strategy, it could unfairly result in increased litigation against registered representatives and broker-dealers who have purchased coverage to ensure financial stability. This again may encourage firms to cease binding insurance coverage to avoid disclosure of the coverage and limits, hardly an outcome FINRA or the public should desire.

Moreover, for those firms that choose to pay for such E&O coverage, this proposed rule will likely cause customer representatives to seek the information not to see if coverage is available, but to amend their demand to policy limits, again targeting the highest amount a firm is able to pay as opposed to focusing on the substantive interests of the customer – which is to identify fault. This increase in settlement demands will inevitably drive the cost of insurance higher, potentially driving out the insurers entirely. The net effect of the proposed rule will not enhance consumer protection, but rather firms and associated persons may choose to forego insurance coverage, lose the availability of insurance altogether or move to a RIA model and away from the much broader and more regulated protections of FINRA.

Finally, as discussed in the proposal itself, the coverage of a claim may be misleading. Sometimes the policy will not cover the claim, and where there are multiple claims resulting from a single event, such as a product failure, the limits of coverage may be exhausted. This could create a situation where the existence of other claims would arguably become discoverable as they would relate to the availability of coverage. Such a scenario is problematic, as the existence of other arbitrations is and should be irrelevant, not contemplated by FINRA discovery rules, and should not be made available. This rule will likely have the unintended consequence of broadening discovery and creating the duty to produce unduly burdensome and prejudicial information by FINRA members.

The protection of our customers and consumers as a whole is our paramount concern, and as such, we respectfully request that FINRA reject this proposed rule.

Sincerely,



Westley King
President