Deleting Misconduct: The Expungement of BrokerCheck Records

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ABSTRACT

We examine the economic consequences of a controversial process, known as expungement, that allows brokers to remove allegations of financial misconduct from public records. From 2007 through 2016, we identify 6,700 expungement attempts, suggesting that brokers attempt to expunge 12% of the allegations of misconduct reported by customers and firms. Of these attempts, 70% were successful. We show that successful and, to a far greater extent, unsuccessful expungement attempts, are a significant predictor of future misconduct. Further, using an instrumental variable based on the random assignment of arbitrators, we show that a broker who receives expungement is more likely to reoffend than a broker denied expungement. This is consistent with the expungement process harming the ability for regulators and consumers to monitor brokers. By contrast, there is only limited evidence that successful expungements improve career prospects. This is consistent with anecdotal evidence that firms ask about expunged infractions during the hiring process, and suggests that expunging a misconduct does not entirely remove the reputational consequences of that misconduct.

Keywords: FINRA Rule 2080, expungement, broker misconduct, recidivism, BrokerCheck

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1. Introduction

BrokerCheck, a website maintained by financial regulators, provides employment and disciplinary history for all US-registered financial brokers in an easy-to-search format. There are many indications that the website is well-utilized and provides important information. For example, as of September 1st, 2018, Amazon's Alexa estimated there were 263,478 unique visitors to BrokerCheck over the past 30 days, and that these visitors were older, more educated, and wealthier than the internet average—characteristics of consumers we might expect to research a broker prior to hiring him or her. Similarly, firms are well-known to use the information in hiring decisions. Regulators, too, use the information; they rely on the disciplinary history in BrokerCheck when deciding which brokerage firms to inspect, as not all brokerage firms are inspected annually.[1] Academics have also recently begun to explore the data. For example, Egan et al. (2018a) found that prior offenders are more than five times as likely to engage in new misconduct as the average broker, and Qureshi and Sokobin (2015) found that the 20% of brokers with the highest ex-ante predicted harm probability are associated with more than 55% of total harm cases.

Given the relevance of this database to a variety of users, it is important to understand not only what is presented in the database, but also what information has been removed. Information is removed through a controversial practice, known as "expungement," that allows brokers to remove certain evidence of disciplinary infractions through an arbitration process. The expungement process has been the subject of significant policy debate (Lipner 2013, Public Investors Arbitration Bar Association; Berkson and Lambert, 2017). State regulators and investor advocates have argued that expungement removes legitimate allegations of misconduct, therefore harming the ability for state regulators to monitor brokers effectively and for investors to protect themselves (Lipner, 2013). In response, broker advocates have pointed out that the allegations of misconduct in BrokerCheck are frequently unverified, and have praised the expungement process as an avenue for brokers to remove meritless allegations (Kennedy, 2016).

To our knowledge, no existing study has systematically studied BrokerCheck expungements—more generally, we are unaware of any systematic study on the removal of

[1] Technically, regulators rely on CRD, which is the database underlying BrokerCheck. CRD contains more information than is presented in BrokerCheck, but expungements remove the information from CRD as well.

misconduct history in a financial context. This is likely because expunged information is not easily available for extraction. We overcome this data limitation by scraping data on arbitration awards from FINRA's Arbitration Awards database. Using our approach, we identify 6,700 broker requests for expungement filed from 2007 to 2016. For comparison, there were just over 53,000 new allegations of misconduct made by firms or customers over the same period (brokers cannot expunge civil, criminal or regulatory disclosures through this process, so we limit the comparison to allegations made by firms or customers). As a rough cut, the numbers suggest that brokers request to expunge just under 12% of the allegations of misconduct made by customers and firms.[2] Of the expungement requests, roughly 70% are successful.

On the one hand, if the process functions as intended—meaning that the expunged information is inaccurate or otherwise does not reflect the broker's conduct—removing the information should increase the value of the BrokerCheck database. Removing these "false positives" should allow regulators, firms, and consumers to perform more effective monitoring, as they could better predict the brokers likely to commit misconduct. On the other hand, if brokers are abusing the expungement process, as some have alleged, removing misconduct from BrokerCheck will hamper the utility of BrokerCheck and monitoring based on this information.

Therefore, a key issue in understanding the impact of expungement is the relation between expungement and broker recidivism. At a descriptive level, successful, and to a far greater extent, unsuccessful expungements, are significantly related to future misconduct. This suggests that expungements, particularly unsuccessful attempts, may provide value to BrokerCheck users as these awards contain some predictive information. However, showing that expungements and future recidivism are correlated is not sufficient to answer the more important question of whether expungement affects recidivism. This question is difficult to test; a simple OLS regression is likely to be biased, as many of the characteristics associated with successful expungements are also likely to be associated with a lower likelihood of recidivism.

[2] Under the conservative assumption that all expunged misconduct was incurred during our sample period and should be included in the denominator, we have 6,700 expungement attempts relative to 57,646 new allegations of misconduct by customers and firms (53,074 allegations remaining in BrokerCheck and 4,572 successfully expunged allegations). Of course, this estimate is imperfect as there is a time-lag between when the infraction occurs and when it is expunged, meaning that expungements in the beginning of our sample likely relate to misconduct that occurred prior to 2007, and that misconduct in recent years would not show up in our expungement sample. For this reason, our inclusion of all successfully expunged allegations in the denominator is over-inclusive, as some of these infractions occurred prior to 2007.

We address endogeneity in the decision whether to grant an expungement by constructing an instrumental variable based on proprietary data from FINRA that allows us to identify the initial set of randomly selected arbitrators who will consider the broker's expungement request. FINRA states explicitly—and has undergone an audit to confirm—that it selects the initial pool of arbitrators randomly (subject only to geographic limitations). Our instrument is the leniency of this panel relative to other arbitrators in the same geographic region, where leniency is determined by the number of times each arbitrator has awarded expungement relative to the number of expungement requests over which she has presided. Tests confirm that the random draw of the arbitrator panel is significantly correlated with expungement success. However, we do not expect this random draw to affect recidivism except through its effect on the expungement process.

Consistent with the intuition that expungements hamper the ability to monitor bad actors, our analysis shows that successful expungements increase recidivism. With full controls, OLS results suggest that an expunged broker is 26 percentage points more likely to reoffend. The 2SLS results improve upon the OLS results by exploiting plausibly exogenous variation in expungement from the random assignment of the arbitrator panel. These results confirm that expunged brokers are more likely to reoffend. With full controls, the 2SLS results show that the marginal expunged broker is 33 to 38 percentage points more likely to reoffend.[3]

A related question is whether expungement affects career outcomes. Prior literature has examined the relationship between bad acts and career consequences in depth, concluding that misconduct negatively affects job prospects. For example, directors are more likely to depart the firm following earnings restatements (Srinivasan, 2005) or financial fraud (Fich and Shivdasani, 2007), and CEOs have difficulty finding new management roles when they leave after regulatory enforcement actions are revealed (Karpoff, Lee and Martin, 2008).[4] In the financial advisor context, brokers are more likely to depart the firm after misconduct, and are less likely to be re-employed as registered brokers going forward (Egan et al., 2018a).

However, to our knowledge, no prior work has examined the effect of removing misconduct on career prospects. Using our instrumental variable, we find very limited evidence

[3] Behavioral literature provides a separate explanation for why expungement may increase recidivism: success can breed over-confidence and risk-seeking behavior (e.g., Rabbitt and Phillips, 1967; Rabbitt and Rodgers, 1977).

[4] Firms, too, have been shown to suffer reputational sanctions: Armour, Mayer and Polo (2016) show that reputational losses from regulatory enforcement far exceed the direct monetary fines that firms pay in those cases.

that successful expungements improve career prospects. The finding is consistent with anecdotal evidence that firms ask about expunged infractions during the hiring process, and it highlights the differences between the types of BrokerCheck users. While consumers are apt to rely on the information in BrokerCheck, firms can ask about expunged infractions on a job application. Therefore, expungement is unlikely to entirely alleviate the reputational harm of misconduct.

Our paper contributes to several areas of literature. First, we contribute to prior work on the effect of publicly disclosing consumer-level disciplinary history. For decades, regulators have been vexed by a small number of bad actors in securities markets who commit repeated offenses (Barnard, 2008). One approach to deter to these actors has been to publicly disclose prior disciplinary history and let the market respond. Repeated studies have found this information is highly predictive of future misconduct (e.g., Egan et al., 2018a; Qureshi and Sokobin, 2015), and may lead to assortative matching between brokerage firms and gatekeepers (Cook et al., 2018). However, it is not clear how the market incorporates this information. For example, one study using public information on investment advisers found that avoiding the 5% of investment advisers with the greatest ex ante fraud risk would allow investors to avoid 40% of the dollar losses due to fraud, but that there was no evidence that investors demanded a higher rate of return from these risky investment advisers (Dimmock and Gerken, 2012). Our study shows that removing this public information increases recidivism. Even if other studies are correct that the market does not fully incorporate the information, there appears to be at least one significant benefit to public disclosure of securities misconduct: improved monitoring.

Second, our paper contributes to literature on reputation. Prior work has shown that firms punish bad actors, but it is unclear whether firms penalize bad actors because they care about misconduct or because they do not want to be publicly associated with bad actors. A simple example illustrates the difference. Human Resources at the Wynn Las Vegas had received allegations that Steve Wynn sexually assaulted female employees for over a decade, but it was only when the allegations became public that Steve Wynn was forced to step down from his position as CEO and Chairman of Wynn Resorts (Astor and Creswell, 2018). There is a difference between public and private misconduct, and our setting allows us to study this distinction. If firms only care about the appearance of association with bad actors, there should be no difference in career outcomes for expunged brokers and those without misconduct, as these two groups are indistinguishable in BrokerCheck. Instead, we find very limited evidence that successful

expungements improve career prospects, suggesting that firms on average care about all misconduct, public and private.

Third, we contribute to work on the removal of consumer information. Prior work examines career consequences after the initial incidence of misconduct becomes publicly known, but we are unaware of any prior empirical work that examines removal of that misconduct. The closest area of literature examines the removal of adverse credit market indicators such as bankruptcy flags (e.g., Dobbie, Keys, and Mahoney, 2017; Dobbie, Goldsmith-Pinkham, Mahoney, Song, 2017; Musto, 2004). These papers generally find that the removal of negative credit market indicators leads to large increases in credit scores and consumer debt, but have no effect on other outcomes such as employment and earnings. Our setting differs from these papers in crucial ways. First, the parties in our setting are removing allegations of misconduct rather than financial mishaps. Second, the parties here apply for expungement, whereas credit flags disappear after a certain number of years.

Finally, we contribute to the ongoing policy debate over expungement. FINRA has recently proposed updated rules to govern the process, and our analysis suggests that FINRA should consider disclosing expungement denials, as this information provides a powerful signal to the market. The period to comment on FINRA's proposals closed in early 2018, so FINRA may formally propose rule changes for SEC approval in the near future.

2. Institutional Background

In the United States, many investor allegations involving financial-advisor misconduct—anywhere from 3,000 to 9,000 complaints each year—are adjudicated through FINRA's arbitration process (FINRA, 2018). Arbitrations are conducted either by a single factfinder or a panel comprised of three adjudicators. In each case, the arbitrators are drawn from a group of more than 7,000 arbitrators maintained by FINRA nationwide (FINRA, 2018).[5]

FINRA identifies a potential set of arbitrators using the Neutral List Selection System, a computer algorithm that ensures conditional random selection (subject only to minimization of

[5] Although as a formal matter arbitrators are not FINRA employees, FINRA is extensively involved in the training and selection of its population of arbitrators (FINRA, 2017). Under FINRA Rule 12214, arbitrators receive $300 per hearing session, with an additional $125 per day for arbitrators acting as chairperson at a hearing on the merits before a three-member panel.

arbitrator travel).[6] Each party to an arbitration is allocated a certain number of strikes to eliminate undesirable candidates. In investor cases with claims of up to $100,000, the general rule is that a single arbitrator will adjudicate the claim. The parties receive one list of 10 qualified public arbitrators, and each party has the right to strike up to four arbitrators from the list and rank the remaining six (FINRA, 2016). Investor cases involving claims of more than $100,000 are typically adjudicated by a panel of three arbitrators. In these cases, the parties receive three lists of potential arbitrators, and again strike the least desirable options from each list and rank those remaining.[7]

After a customer complaint is settled or adjudicated, the firm or broker that was the subject of the complaint has an obligation to report that outcome to FINRA's Central Registration Depository (CRD), typically no more than 30 days after learning that a filing is required.[8] Firms or individuals who fail to file required updates are subject to regulatory action by FINRA.[9] FINRA then releases some, but not all, of the information in each firm and broker's CRD file to the public on FINRA's BrokerCheck website.[10]

BrokerCheck displays information on all brokers and firms registered with FINRA. Subject to limited exceptions, financial professionals who buy or sell securities on behalf of their customers or their own account are required to register with FINRA. As such, the scope of BrokerCheck extends beyond traditional customer-facing brokers to include sell-side advisors such as

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[6] According to FINRA, "[t]he randomized process [used in NLSS] has been verified by an Ernst & Young audit in a report that confirmed that a 'random pool management algorithm [is] used to ensure that each arbitrator in the pool has the same opportunity to appear on a list as all other arbitrators in that pool.'"

[7] One list contains 10 public arbitrators who are qualified to serve as chair. Another contains 15 public arbitrators, and the final contains 10 non-public arbitrators. Each party may strike four from the chair list, six on the public list, and ten on the non-public list. Arbitrators who are not affiliated with the securities industry are considered public, and arbitrators who are affiliated with the securities industry are considered non-public. However, should they desire, claimants have the right to request an all-public arbitrator panel. FINRA indicates that most pursue this option.

[8] FINRA rules currently require the use of six forms for firms and brokers to file with CRD in order to update their records: Form U4 (usually regarding initial applications for securities-industry registration), Form U5 (a non-public record that follows brokers and is used by firms to track employment history and reasons for separation), Form U6 (for reporting certain disciplinary actions), Form BD (for application for broker-dealer registration), Form BDW (for requests for broker-dealers to withdraw from registration), and Form BR (for registration of a broker-dealer's branch office) (FINRA, 2002). State regulators can, and often do, separately provide information regarding actions they have brought to FINRA for inclusion in the CRD.

[9] As Qureshi and Sokobin (2015) point out, FINRA has recently proposed, and the SEC has adopted, new rules requiring firms to adopt written procedures to ensure that the information they report to CRD is accurate.

[10] Most notably, CRD contains more information related to personal finances than BrokerCheck. For example, bankruptcies aged ten years or more are excluded from BrokerCheck even though they remain in CRD. BrokerCheck also removes judgments and liens after they have been satisfied, whereas CRD continues to include this information.

investment bankers. BrokerCheck is meant to provide individuals with a free and easy way to research an investment professional, and the database includes information about licenses, employment history, and disciplinary history. The disciplinary history—in FINRA parlance, "dispute information"—includes written complaints, criminal conduct, arbitrations in which the broker is named as a party, litigation that names the broker as a party, arbitration awards, and civil judgments. An example of how this is presented on BrokerCheck is provided in Appendix I. Although brokers have the opportunity to respond to an allegation in BrokerCheck—as shown in the example provided in Appendix I—many brokers do not pursue this option.

One concern with the disciplinary history provided on BrokerCheck is that much of it has not been independently verified. Although some complaints are confirmed, such as criminal or regulatory actions against the broker, the allegations made by private parties such as customers or employers are frequently unverified. A written customer complaint against a broker can be added to CRD—and thus show up in BrokerCheck—without third-party verification that the broker committed a bad act. The process is subject to such little supervision that a completely erroneous allegation—such as a dispute against the wrong broker—may be recorded in BrokerCheck.

For this reason, there are concerns that the disciplinary information in BrokerCheck is erroneous and that brokers may be unfairly penalized. To address these concerns, FINRA allows brokers to expunge their records. The rules governing expungement have been the subject of a great deal of controversy and have changed extensively over time.[11] Since April 2004, however, expungement of customer-related information has been governed by Rule 2080 (former NASD Rule 2130). This rule provides arbitrators with guidance on addressing expungement requests and specifies that expungement may only be awarded in cases where the initial case either (1) involved a claim that was "factually impossible or clearly erroneous," (2) involved a complaint where the registered person was not involved in the alleged conduct, or (3) the information in the claim is "false." To our knowledge, there is no FINRA rule governing expungement of non-customer related disputes that may arise, such as disputes between a broker and her firm.

[11] From 1981 to 1999, FINRA's predecessor, the National Association of Securities Dealers (NASD), permitted customer dispute information to be removed from CRD if there was a judgment or arbitration award directing expungement (Lipner, 2013). Then, in early 1999, in response to criticism from state securities regulators, NASD imposed a temporary moratorium on arbitrator awards of expungement (Lipner, 2013). In particular, state lawmakers argued that information in CRD is a "state record" for purposes of certain state laws, thus subjecting CRD to state-law rules governing the alteration or removal of CRD data (Butterworth, 1998).

Expungement has remained controversial since the adoption of Rule 2080, necessitating various rule changes over the past decade. Most significantly, in July 2014, FINRA adopted a new rule to prohibit brokers from conditioning settlements on the customer's agreement not to oppose the expungement. Prior to this rule, there were concerns that brokers were buying expungements by paying off complainants. As recently as late 2017, FINRA requested comment on several options to revamp the expungement process, including creating a new roster of arbitrators with specialized expungement training, shortening the period in which a broker can request expungement, requiring a panel of arbitrators to agree unanimously to grant any expungement, and/or requiring that brokers appear in person at expungement hearings. The period to comment on these proposals closed in early 2018, so FINRA may formally propose rule changes for SEC approval in the near future.

3. Methodology and Descriptive Statistics

Our analysis uses two datasets: (1) the BrokerCheck data, and (2) the Expungement data. The BrokerCheck data include a balanced panel of 1.23 million brokers available in FINRA's BrokerCheck database from 2007 to 2017. The Expungement data include 4,816 cases initiated from 2007 to 2016 requesting expungement for 6,700 offenses (some cases request expungement for multiple brokers or multiple offenses). After eliminating requests for which we could not locate the broker's CRD number, and those related to brokers no longer remaining in BrokerCheck, we have a total of 6,419 requests. To maintain a balanced panel, we keep only the first expungement per year if the same broker requests multiple expungements in the same year. This leaves us with 5,718 observations in the merged BrokerCheck-Expungement database.

When creating the Expungement data, we focused on requests filed from 2007 to 2016 for three reasons. First, FINRA was created through regulatory consolidation in July 2007, so recordkeeping becomes more consistent at this point. Second, many expungement cases brought in 2017 are yet to conclude. Third, BrokerCheck is meant to display records for a period of ten years, meaning that data over a decade old becomes subject to an increasingly severe selection bias. We provide detailed information on these two datasets below.

A. BrokerCheck Data

We scraped BrokerCheck using an algorithm written in Python in May 2018, so our BrokerCheck data contain information on all brokers and firms with records available on BrokerCheck in May 2018.[12] This yields a balanced panel of 1.23 million brokers spanning the period between 2007 and 2017. In total, there are roughly 13.5 million broker-year observations. However, some of these brokers were not active in some (or all) of the years between 2007 and 2017. In these instances, we keep the observation to maintain a balanced panel, but we leave employment blank—employment is only reported if the broker was employed as a registered broker in that year.

For each broker identified in BrokerCheck, we pulled the individual-level variables shown in Panel A of Table 1.[13] The table presents characteristics of brokers who applied for expungement, brokers who have not applied for expungement, and t-statistics comparing the two populations. There are clear differences between the populations. Brokers who apply for expungement have more years of experience, far more disciplinary history, and are more likely to be retail brokers (following Qureshi and Sokobin (2015), we define retail brokers as those who hold more than three state registrations). These brokers have also passed more exams, likely because they are retail brokers and must pass the exams required for the state(s) in which they operate.[14] Notably, 82% of the brokers who have applied for expungement are dually registered as broker-dealers and investment advisers—significantly higher than the general population in BrokerCheck. Generally speaking, investment advisers make investment decisions on behalf of their clients, whereas

[12] The algorithm executed an exhaustive search for broker CRD numbers between 1 and 7,000,000 (the end value of 7,000,000 was determined after speaking with the authors of McCann et al. (2016)). After completing the initial scrape, we exported the data into R and converted the broker cross-section into a panel using the information on broker registration and disclosure histories. If a broker switched firms midway through the year, she was assigned to the firm that she spent the most time at in any given year. If a broker was registered at two firms for an entire year, we randomly selected one firm for the particular year.

[13] We have far more observations than Egan et al. (2018a) because we keep observations where the broker's employment information was not available in BrokerCheck (i.e., the individual was not employed as a registered broker in that year). We keep these observations because brokers can apply for expungement when they are not employed as registered brokers. As such, our analysis would exclude a potentially important subset of expunged brokers if we were to use only the limited panel.

[14] The most common qualifications are Series 63 (state securities regulations), Series 7 (general securities exam), Series 65 and 66 (typically required to provide investment advice), and Series 24 (typically required to serve in a supervisory capacity).

brokers execute trades they are told to execute. Therefore, investment advisers typically have far greater opportunity to harm their clients.

Following Egan et al. (2018ab), we consider six of the 23 disclosure categories on BrokerCheck to be "misconduct." Many of the other disclosure categories do not relate to misconduct but instead reflect personal history such as liens or bankruptcies. Further, by limiting to these six categories, we have greater confidence in the accuracy of the underlying complaint. For example, for an oral complaint to be included in the Customer Dispute – Settled category, the settlement must have exceeded $15,000.[15] These six categories we consider misconduct are as follows: Customer Dispute-Settled, Regulatory-Final, Employment Separation After Allegations, Customer Dispute - Award/Judgment, Criminal - Final Disposition, Civil-Final. The number of allegations in each of the disclosure categories, including those categories we do not consider misconduct, is presented in Appendix II.

After completing the scrape of brokers, we generated a unique list of employers and scraped BrokerCheck for information on these firms. As shown in Panel B of Table 1, we identified 7,819 unique firms (roughly one-third were available in all years). The majority of firms in BrokerCheck do not employ expunged brokers, but those that do tend to be larger, more established, and more client facing. This seems intuitive, as larger firms with more brokers—especially retail brokers—and longer lifespans have more opportunity for the brokers they employ to commit misconduct and expunge that misconduct.

B. Expungement Data

Our expungement data contain, as best possible, the complete set of all requests to expunge broker CRD information initiated from 2007 through 2016. We identified the expungement cases using FINRA's Arbitration Awards online database. First, we conducted a search of the Arbitration Awards online database using the following keywords: 'expungement,' '2080,' or '2130' (as discussed previously, Rules 2080 and 2130 govern FINRA's expungement procedures for customer-initiated disputes). This search yielded over 10,000 arbitration awards, each uniquely indexed by a FINRA Award ID. Using Python, we scraped this list of FINRA Award IDs and the

[15] Amendments in 2009 increased the reporting threshold to $15,000 from $10,000. However, this threshold only applies to oral complaints. Written complaints are included if the claim amount (not settlement amount) exceeds $5000.

links to the relevant arbitration award PDFs. Second, using this list of Award ID numbers and PDF links, we used Python to download the PDFs. As a first cut, we identified the 3,500 cases that contained '2080' or '2130' in the award section of the PDF. For the remaining PDFs, we similarly used Python to identify those containing 'expungement' in the text of the award and hand-coded these PDFs to confirm they were actually related to expungement proceedings. After removing duplicates, we had 6,100 expungement arbitration awards in total.

To gain confidence in our sample and identify further expungements, we reached out to the PIABA, an international bar association whose members represent investors in disputes with the securities industry. PIABA tracks expungements and shared data from 2007 to 2014 for the purposes of this study. Our initial data included 92% of the cases in the PIABA data, and we added the missing 227 observations.[16]

After restricting attention to cases initiated from 2007 through 2016, our search parameters yielded 4,816 arbitration awards corresponding to 6,700 unique (broker-offense) expungement requests. For each arbitration award, we identified the following variables: Date of award, date of claim, all brokers who applied for expungement, the justification for the expungement under Rule 2080 (False, Erroneous, or Not Involved), whether the case was heard by a panel or sole arbitrator, whether the expungement was successful, whether the case was settled, the hearing site of the case, whether the expungement was unopposed, settlement amounts (when disclosed), who initiated the case (broker, firm, or customer), and the date and type of the underlying infraction. We scraped the variables initially using Python, but hand-checked the coding. (Detailed descriptions of these variables are provided in Appendix III.) To categorize the underlying infraction, we used the categories provided in Table 3(a) of Egan et al. (2018a) for customer-initiated cases and created similar categories for cases initiated by firms or brokers.[17] The number of expungement requests by category is provided in Appendix IV. Particularly for the customer-initiated infractions, most instances of misconduct are those that are typically associated with an investment adviser rather than a broker-dealer (e.g., breach of fiduciary duty).

[16] Our sample included an additional 1,233 cases that were not included in the PIABA data. This discrepancy is largely because PIABA restricts attention to expungement cases involving stipulated awards or settled customer claims.

[17] As a caveat, the distinction between customer and non-customer initiated expungements is blurred, as many of the non-customer initiated expungements in our sample are infractions that were initiated by a broker's firm after a customer complained to the firm about the broker's conduct.

We identified additional detail about the broker using his or her name. First, by matching the broker's name with the GenderChecker.com database, we identified the broker's gender. If the broker's first name was not in the database or was unisex, we matched the middle name (or any other name excluding the broker's last name). Second, we ran the broker's name through NamePrism, an ethnicity classification tool (Junting et al., 2017). The tool classifies brokers into six categories: White, Black, API (Asian and Pacific Islander), AIAN (American Indian and Alaska Native), Multiple Race (more than two races) and Hispanic. Finally, we use Follow the Money to identify political donations made by each broker. We present whether the broker contributed to republicans, democrats, both parties, neither party, and the total sum contributed.

I. Summary Information on Expunged Brokers

Descriptive statistics for the expungement data are presented in Table 2, which contains additional information from the BrokerCheck data. To merge these datasets, we use the broker's CRD and the year that the arbitration was decided.[18] Roughly 13% of the brokers that sought expungement were not employed at a FINRA-registered firm when the arbitration is decided. Rather than remove these observations from the data, we include the relevant broker characteristics (e.g., number of licenses) from the broker's most recently available year in BrokerCheck. We note that the broker is not a registered broker in that year, however, and code his employment as such in our panel.

Table 2 shows the mean, median, and standard deviation for each relevant variable, and presents these statistics conditional on whether the expungement was successful. Some trends are evident. Brokers are more likely to succeed if the case is not opposed, the broker has settled with the aggrieved party, and the broker does not have a prior expungement. Brokers from larger firms—and firms without disciplinary history—are also more likely to succeed. Women are more likely to be successful than men, and whites are more likely than non-whites.

II. Career Outcomes for Expunged Brokers

Next, we provide descriptive statistics on career options and workplaces for expunged

[18] The vast majority (99%) of the brokers who sought expungements appear in the BrokerCheck data (the remaining brokers appeared to drop out because BrokerCheck is only required to maintain records going back 10 years).

brokers. Panel A of Table 3 presents the firms with the most expunged brokers (only firms with 100 or more brokers are included). Column (1) presents the firms with the greatest absolute number of expungements. Column (2) presents the firms with the greatest number of expungements relative to total misconducts. Column (3) presents the firms with the highest percentage of expungements relative to total brokers. Finally, Column (4) presents the firms with the highest percentage of expungements relative to retail brokers (as discussed previously, retail brokers are more likely to have misconduct on their records).

A few trends are evident. Four firms in this table, Brookville Capital Partners, NSM Securities, RW Towt, and iTRADEdirect.com, have been expelled from FINRA membership.[19] One explanation is that firms facing severe disciplinary action such as expulsion encourage their brokers to expunge their records to present a better image to regulators. Another possibility is that brokers at these firms want to clean their records because they expect to soon look for other employment. There are also some firms that operate as platform companies for individual brokers (e.g., LPL and Securities America). There could be significant variability in quality/compliance at these firms and their incentives to take on a potentially problematic broker. Finally, although not evident from the table itself, we note that a number of expunged actions brought at larger firms such as Morgan Stanley were related to unusual products (e.g., Lehman structured notes). This was not the case at smaller, more traditional retail brokerages.

Of course, the trends in panel A only describe careers of brokers who remain registered brokers. A related question is what happens to the brokers who exit the BrokerCheck database. We address this question descriptively by reviewing employment history for 1,515 randomly selected brokers who applied for expungement and experienced at least one employment separation. For the observations with missing employment information, we hand-collect the information as best possible.

Panel B of Table 3 summarizes the post-separation outcomes for this sample of brokers and shows that brokers who cease employment as registered brokers often continue to work in finance—especially those brokers who exit BrokerCheck after an expungement. These brokers fall into two groups. First, some continue to work for FINRA-registered firms, despite that the individual is no longer a registered broker. Individuals employed at registered brokerages may be

[19] A firm expelled from FINRA membership is prohibited under federal law from selling securities. FINRA expels firms for a variety of reasons ranging from failure to pay regulatory fines to fraud.

exempt from FINRA registration if their tasks do not require that they be actively engaged in the investment banking or securities business, so these individuals may no longer continue with these activities. Of course, however, it is also possible that some in this group are violating the registration rules.[20]

Second, many of these individuals work solely as investment advisers rather than dually registered broker-dealer investment advisers (registered investment advisers are regulated primarily by the SEC rather than FINRA and do not appear in BrokerCheck unless they are dually registered). As one such example, consider Kimon P. Daifotis—a broker who applied for expungement 39 times. He eventually went to work as the Chief Investment Officer for Fixed Income at Charles Schwab Investment Management as a registered investment adviser, until he was barred from the industry by the SEC. This has significant policy implications, as it suggests "bad" brokers may be pushed to other areas of finance that have less accessible public disclosure. If so, these individuals may be harder for consumers and regulators to detect.

III. Summary Information on Expungement Process

Further descriptive statistics are presented in Figures 1 through 5. Figure 1 presents the number of successful and unsuccessful expungement awards by year and shows that roughly 70% of expungements are successful in each year from 2007 to 2016. Figure 2 presents the number of brokers who sought multiple expungements during our sample period and shows that roughly 7% of brokers seek two expungements, and 4% seek three or more expungements. Figure 3 shows the number of future allegations of misconduct against brokers who received successful expungements. Roughly 20% of brokers with a successful expungement received another allegation of misconduct after the expungement—for comparison, as shown in Table 1, roughly 4% of brokers receive an allegation of misconduct at any point during our sample period. Figure 4 shows the mean settlement for customer-related expunged actions by year. Although the figure should be interpreted cautiously as we were only able to identify the settlement amount in roughly one-third

[20] For example, one broker ceased registration in September 2012. However, on his LinkedIn profile, the title for his job from September 2012 through March 2014 was "Broker" and his job description indicated that he "[e]xecuted high value transactions on overseas and domestic futures and options". Due to various exceptions, it is possible that this person was allowed to work as an unregistered broker, but we are unable to determine whether he meets these exemptions from the public data.

of cases, the settlement values are notable. In all years from 2008 to 2014, the mean settlement exceeded $100K, suggesting that the underlying claims had at least some validity.[21]

Finally, Figure 5 reflects the arbitrator's Rule 2080 justification for expunging the action (a justification is provided for all successful expungements under Rule 2080). The numbers sum to more than 100% because multiple justifications are often cited. After observing the relatively high proportion (~40%) of cases recorded as 'erroneous' under Rule 2080, we hand-collected the number of these cases that were 'truly erroneous'. We classified cases as 'truly erroneous' if any of the following occurred: customer identified the wrong broker in the complaint (e.g., misspelled name or sales assistant), infraction occurred before the broker joined the relevant firm, or broker had no contact with the customer. We found that 18% of cases recorded as 'erroneous' fit our definition of 'truly erroneous.' The remaining 'erroneous' cases involved issues such as allegations of misrepresentation or excessive risk-taking that did not seem consistent with Rule 2080's guidance.

A natural question is why all brokers do not expunge their records. To answer this question, we cold-called 554 brokers in our sample. Of these, 100 had successfully expunged an infraction and the remainder had non-expunged misconduct on their public records. Of these 554 brokers, only 19 agreed to speak with us—the remainder immediately hung up, did not return our calls, or hung up after comments such as "I don't know what an expungement is." However, these 19 provided consistent explanations for why brokers do not expunge. First, many brokers stated they were unaware of the process, or even that allegations of misconduct could be viewed publicly. Several were very surprised to receive our call, responding with comments such as "you know, your call is the first time I've ever heard this" (referring to the expungement process). Second, of the brokers familiar with the process, many thought it was too costly. The cost mentioned was anywhere from $12,500 to $300,000, with most putting the cost around $25,000-$50,000 before

[21] The settlement values presented reflect the net difference between what the customer was due to receive minus what she was required to pay (in a few rare instances, customers were required to compensate brokers for infractions such as reputational damage or breach of contract). The settlement values are frequently paid, either in full or in part, by the broker's firm rather than solely by the broker. Intra-industry disputes are excluded from this figure, but their inclusion makes little difference in the mean settlement amount.

settlement payments.[22] Finally, many of the brokers estimated their likelihood of success to be low, noting that FINRA considers expungement an exceptional remedy.

4. Empirical Analysis

A. Determinants of Future Misconduct

FINRA describes expungement as "an extraordinary remedy" that "should be used only when the expunged information has no meaningful regulatory or investor protection value."[23] As a preliminary inquiry, therefore, Table 4 tests whether expunged actions predict future misconduct. If so, it would seem that the expunged information has value. All models are run using ordinary least squares and control for the broker's years of experience, gender, whether the broker is Caucasian, total qualifications, and whether the broker has passed the following specific exams: Series 65 or 66, 24, 6 and 7. Standard errors are clustered by firm. Fixed effects are included for the broker's firm-county-year. Following Egan et al. (2018a), the dependent variable is a dummy indicating whether the broker received an allegation of misconduct in a particular year, and the variables of interest reflect whether the broker experienced the event in question prior to time *t*.

Panels A and B show that prior misconduct, prior successful expungements, and prior unsuccessful expungements all predict future misconduct, but to varying degrees. Panel A includes the balanced panel of all brokers in BrokerCheck, even if the individual was not a registered broker in a particular year. Panel B includes only years for which the individual was a registered broker. The results are consistent across both panels. An unsuccessful expungement attempt is by far the greatest predictor—it is associated with a 7.7 to 9.4 percentage point increase in the likelihood of future misconduct. A successful expungement attempt is associated with a 1.6 to 2.8 percentage point increase in the likelihood of future misconduct, and prior misconduct with no attempt to expunge is associated with a 3.8 to 4.5 percentage point increase in the likelihood of future misconduct. Likelihood ratio tests comparing columns (5) and (6)—those including dummies for successful and unsuccessful expungements along with the dummy for prior misconduct—indicate

[22] At the extreme, one broker estimated the cost to be $700K for an expungement. However, this same broker mentioned that he had prior difficulty over a "traffic stop" that we later determined to be assault on a police officer, so we question his credibility.

[23] "FINRA Rule 2080 Frequently Asked Questions" available at http://www.finra.org/industry/crd/rule-2080-frequently-asked-questions (last accessed on 6/6/2018).

that the expungement dummies improve the fit of the model. However, despite that the dummies improve the fit, there is a sense that expungement is working as intended; a successful expungement is associated with a relatively low probability of future misconduct, whereas an unsuccessful expungement is associated with a much higher probability of future misconduct.

B. Determinants of Expungement Filings and Success

In Table 5, we examine the determinants of expungement filings and successes. First, in columns (1) and (2), we examine who files for expungement. All models are restricted to the population of brokers who are eligible to file for expungement—i.e., those with expungable misconduct.[24] In this regard, this table differs from the descriptive statistics in Table 1, which included the full sample of brokers rather than only those with eligible to file for expungement. A few interesting trends emerge. Women are more likely to apply for expungement than men—perhaps because the repercussions of misconduct are more severe (see, for example, Egan et al., 2018b). Brokers with more non-standard licenses are more likely to apply, likely because these are retail brokers with state licenses. Finally, consistent with Panel A of Table 3, brokers from disciplined/taping firms are more likely to apply for expungement. Disciplined firms are those that have been expelled or had their broker-dealer licenses revoked. Taping firms are those that, roughly stated, are required to tape conversations with customers because they have a significant association with a disciplined firm. Consistent with the intuition that there are systematic differences across firms, brokers from firms with more expungements are also more likely to apply.

Second, in columns (3) and (4), we examine the determinants of successful expungements. All models are restricted to brokers who file for expungement and include fixed effects for the hearing location. The dependent variable is equal to 1 if the expungement was successful (otherwise 0). A few trends are clear. Although prior misconduct and prior unsuccessful expungements are negatively correlated with success, prior successful expungements are positively correlated with success—perhaps because the broker learns the process and procedures.

[24] Of the six categories of "misconduct," three can be expunged: Customer Dispute - Settled, Employment Separation After Allegations, and Customer Dispute - Award / Judgment. We restrict to brokers with an infraction in one of these three categories. This restriction requires that we recreate the BrokerCheck misconduct variable for each expunged action, but we are unable to do so perfectly because we frequently do not know when the original infraction occurred. Instead, because we find that the mean duration between the underlying infraction and the award date is five years, we recreate the panel assuming all expungement awards were five years following the initial infraction.

Women are more likely to receive successful expungements. Interestingly, higher settlement values are highly correlated with success. This finding is consistent with the notion that, until the rule change in 2014, brokers were paying complainants to not oppose their expungement request, and arbitrators were granting those expungements.

In sum, Tables 4 and 5 provide descriptive evidence that expungements—especially unsuccessful expungements—provide investors with significant information about future misconduct. Further, there are systematic differences in who applies for and receives an expungement, indicating that studies based on only the allegations of misconduct in BrokerCheck are based on a non-random subset of cleansed infractions.

C. Instrumental Variable Analysis

Studying the effect of a successful expungement is inherently problematic. Brokers with successful expungements are presumably "less bad" than those with unsuccessful expungements, and the variables that predict a successful expungement are likely correlated with outcomes such as recidivism that we would like to test. A simple OLS regression will lead to biased estimates on the effect of success even with the inclusion of fixed effects for broker and firm characteristics.

I. Instrument Calculation

To overcome this obstacle, we use the random assignment of the initial pool of arbitrators as an instrumental variable which predicts the likelihood that the broker will succeed on his request for expungement. As stated earlier, FINRA assigns the initial pool of arbitrators randomly, subject only to geographic restrictions. Although the initial pool of arbitrators is not public information—only the arbitrator(s) selected are publicly known—FINRA provided us with this information for the expungement awards in our sample.[25] The use of randomized arbitrators as an instrument follows prior literature using randomized judges or investigators as an instrument, such as Kling (2006); Chang and Schoar (2008); Doyle (2007, 2008); Dobbie and Song (2015); Cheng, Severino, and Townsend (2017); Sampat and Williams (2018); and Dobbie, Goldin, and Yang (2018). The

[25] FINRA provided us with anonymous IDs for each of the arbitrators selected for the panel as well as an indicator for whether the arbitrator was selected. We back out the arbitrators selected for the cases in our sample using this information, but we are unable to identify arbitrators who have not served on an expungement case in our sample.

key identification assumption is that the random assignment of the arbitrator panel will significantly affect the broker's likelihood of success but will not affect recidivism—except through the decision whether to grant the expungement.

Assume the simplest scenario: A broker attempts to expunge an infraction from his record, and he has a single-arbitrator panel. FINRA provides a list of ten potential arbitrators, along with detailed Arbitrator Disclosure Statements describing their professional qualifications, to the respondent and claimant. The parties may further research the arbitrators using a paid service that provides information on prior awards of each arbitrator,[26] or by reviewing the arbitrator's prior awards on FINRA's Arbitration Awards website. After completing the research process, each party may strike up to four arbitrators—presumably those perceived as most hostile—and is asked to rank those remaining. FINRA then assigns as arbitrator the candidate who has been ranked most favorably by both parties.

Theoretically, this means the parties will end up with the median arbitrator of the initial panel of randomly assigned arbitrators. Therefore, we use the relative leniency of the median arbitrator on the initial arbitrator panel as our instrumental variable, where "relative" is determined in comparison with other arbitrators in the same year and region.[27] Although the parties have the ability to endogenously select the arbitrator after the initial panel is assigned, that initial panel—and therefore the median arbitrator on that initial panel—is randomly determined.

Empirically, we define our instrument as the median leave out success rate of all arbitrators in the initial panel minus the annual mean leave out rate in the FINRA region. The leave-out success rate is the number of times each arbitrator has successfully awarded expungement relative to the number of expungement requests over which she has presided (excluding that particular award for the arbitrator(s) chosen for the panel). The success rate is highly correlated within arbitrators and ranges from 0 to 100 percent for arbitrators with five or more awards—that is, there are some arbitrators who deny every expungement and others who approve every expungement. The significant variation in expungement rates across arbitrators suggests that they are swayed by

[26] See, for example, the Securities Arbitration Commentator.

[27] We define region as the hearing site of the arbitration. FINRA currently offers 71 hearing locations, but we have 83 locations in our data over the entire period. FINRA will determine the location of the arbitration. For cases involving investors, FINRA typically selects the location closest to the investor's residence at the time of the events giving rise to the dispute.

their preferences—an intuition consistent with Choi, Fisch, and Pritchard (2010, 2014), which found that arbitrators who represent brokerage firms or brokers, who donate to republican candidates (as opposed to democratic ones), and who are professional arbitrators, tend to issue lower awards. They argue that there is no effective mechanism to ensure that the arbitrators follow the law, opening the door for arbitrators to be swayed by their own preferences.

One potential concern with our instrument is that some arbitrators have not presided over any expungement cases. In such instances, we cannot determine their leniency relative. We take two approaches to address this issue. First, we exclude these arbitrators when calculating the relative leniency of the panel. This variable is referred to as *Arbitrator Leniency*. Second, we set the missing arbitrator history equal to the mean success rate in the region in that year. This variable is referred to as *Arbitrator Leniency – Adjusted*. All results going forward are shown with both variables, and the distribution of each variable is presented in Figure 6.[28] Because the inclusion of the missing arbitrators causes a far greater percentage of arbitrators to be set equal to the regional mean in a given year, there are far more observations at 0 using *Arbitrator Leniency – Adjusted.*

II. First Stage Regression

Our first-stage regression is below. S_i reflects whether the broker successfully obtained an expungement, α_{rt} is a region by award year fixed effect to address region-specific time variation, and X_i is a set of control variables. The variable ML_{iart} is the instrument (i.e., the median leave-out success rate of the initial pool of randomly assigned arbitrators relative to the annual mean leave-out rate in the region).[29]

<u>1st Stage</u> $$S_i = \alpha_{rt} + \beta ML_{iart} + GX_i + \cdots + v_i$$

The results of the first-stage regressions are shown in Table 6. The first two columns show

[28] In unreported tests, we calculate the arbitrator leniency variables using the mean success rate of the randomly assigned panel (as opposed to the median success rate), and we limit the sample to arbitrators with five or more awards. All findings remain consistent, so we do not report these results for concision.

[29] We calculate the success rate for each arbitrator in our sample and merge that with the FINRA data identifying the potential arbitrators selected for the randomly assigned panel. Arbitrator success rates for those selected are adjusted to the leave-out rate (i.e., adjusted to exclude that particular case). Using those data, we calculate the mean success rate of the panel and subtract the annual mean leave-out success rate in the geographic region where the hearing occurs.

the results using *Arbitrator Leniency*, and the final two columns show the results using *Arbitrator Leniency - Adjusted*. The results are presented first using only fixed effects and then with full controls. Standard errors are clustered by broker-arbitrator (when there is more than one arbitrator, we cluster by the chair). All models include only the brokers who have applied for expungement. There are more observations using the *Arbitrator Leniency – Adjusted* instrument because, in some cases, none of the arbitrators in the panel had previously presided over an expungement award. (There are fewer observations than in Table 2 because FINRA was unable to locate the deanonymized arbitrators for all awards in our sample.)

Table 6 shows that our calculated success rate is strongly positively correlated with the likelihood of success. This relationship is robust to the inclusion of the control variables in Table 5 and to fixed effects. To put the results in perspective, Table 6 indicates that, for a one standard deviation increase in the relative leniency of the arbitrator panel, the broker's likelihood of success increases by 2-12 percentage points. The table therefore provides confidence in our instrument.

A visual representation of the first-stage results is provided in Figure 7. The figure plots the relationship between the residualized success rate and *Arbitrator Leniency* (*Arbitrator Leniency – Adjusted*) in Panel A (Panel B). To construct the binned scatter plots, we first regress an indicator for successful expungement on the year-region fixed effects. We then group observations into 20 bins and plot mean values of the x and y variables within each bin. To aid visual interpretation of the plot, we also show the best fit line from an OLS regression.

D. Effect of Expungement on Recidivism and Career Outcomes

The empirical strategy described above is implemented in Tables 7 and 8, which study the effect of expungement on recidivism and career outcomes, respectively. The generic second stage model is shown below. y_i is the outcome variable, α_{rt} is a region by award year fixed effect, X_i is the set of controls, and $\hat{S}_i$ is the predicted likelihood of success for each expungement award estimated from the first-stage model. In effect, β represents the causal effect of expungement success on outcome y_i .

$$\underline{2^{\text{nd}}\text{ Stage}} \qquad y_i = \alpha_{rt} + \beta\hat{S}_i + \Gamma X_i + \cdots + u_i$$

Tables 7 and 8 include only the set of brokers who applied for expungement. In both tables,

columns (1) and (2) reflect the results using OLS, columns (3) and (4) reflect the 2SLS results using *Arbitrator Leniency*, and columns (5) and (6) reflect the 2SLS results using *Arbitrator Leniency – Adjusted*. The odd-numbered columns include only fixed effects and the even-numbered columns include full controls. All models include region-year fixed effects, and standard errors are double clustered by broker and arbitrator (or by the chair if there is more than one arbitrator). There are fewer observations in the even-numbered columns because we are unable to identify certain control variables for some expungements (e.g., broker gender).

Two conditions are required to interpret the 2SLS results as the local average treatment effect (LATE). First, the exclusion principle must hold, meaning that the arbitrator panel assignment only impacts broker recidivism and career outcomes through the probability of expungement. Although we think this assumption is reasonable, this condition is fundamentally untestable. Our results should be interpreted with this caveat in mind. Second, the monotonicity assumption must hold, meaning that the brokers expunged by a strict arbitrator would also be expunged by a lenient arbitrator, and brokers denied by a lenient arbitrator would also be denied by a strict arbitrator. If the monotonicity assumption is violated, the 2SLS assumption would be a weighted average of marginal treatment effects, but the weights would not sum to one (Angrist, Imbens, and Rubin, 1996; Heckman and Vytlacil, 2005). One testable implication of the monotonicity assumption is that the first-stage results should be positive for different subsets of brokers. Therefore, in unreported tests, we divide brokers by their prior expungement history, employment status, experience, and gender. The coefficient on the arbitrator leniency variable remains positive in these subsamples.

I. Expungement and Recidivism

Assuming the exclusion and monotonicity assumptions are met, Table 7 shows the LATE of expungement on recidivism is economically meaningful. In Panel A, the dependent variable is a dummy for whether the broker received any allegation of future misconduct after the initial expungement request. In Panel B, the dependent variable reflects the number of future misconducts reported in BrokerCheck after the initial expungement request. To avoid potential bias because brokers are more likely to exit the BrokerCheck database after an unsuccessful expungement, we only include brokers who remain in BrokerCheck in the years following the expungement (and are therefore eligible to commit misconduct).

In Panel A, the OLS results in column (2) show that brokers are 26 percentage points more likely to reoffend after a successful expungement. The 2SLS results improve on this estimate and confirm that brokers who are expunged are significantly more likely to reoffend that those denied expungement. With full controls, the marginal expunged broker is 33 to 38 percentage points more likely to reoffend. Panel B examines the number of future allegations of misconduct after the expungement and shows a similar trend.

The finding that deleting public disciplinary infractions increases recidivism is intuitive if the information enhances monitoring. Although we showed in Table 4 that the information has predictive power—and should theoretically enhance monitoring—the question remains as to whether relevant parties use the information. To understand how widely BrokerCheck is used, we tracked web traffic to BrokerCheck using Amazon's Alexa and reviewed FINRA and state securities regulators' policies. Both avenues suggest that the information on BrokerCheck—especially allegations of misconduct—are widely used.

As of September 1st, 2018, Alexa data estimated that 37.11% of the 709,991 unique visitors to finra.org over the prior 30 days visited BrokerCheck—making for an estimated 263,478 unique visitors to BrokerCheck over the past 30 days. Relative to the internet average, these visitors were disproportionately male, educated (slightly more likely to have college or graduate degrees), elderly (substantially more likely to fall in the 55-64 or 65+ buckets), and wealthy (more likely to fall in the $60K-$100K bucket and substantially more likely to fall in the $100K bucket). By comparison, sec.gov boasts 2,281,121 unique monthly visitors. Of these, only 3.27% (74,592) visited adviserinfo.sec.gov (the website for background on investment advisers). Based on the number of unique visitors and their age and income, Alexa's data suggests that consumers indeed visit BrokerCheck to research their broker.[30]

Further, regulatory publications indicate that the information in BrokerCheck is widely used and allows for more informed monitoring. For example, FINRA states that it considers the number of disciplined brokers at a firm when designing its inspection strategy for the year (not all

[30] We further reviewed usage statistics from Google Search Analytics, SimilarWeb, QuantCast, and Hypestat. At the low end, SimilarWeb reported an estimated roughly 62,000 monthly BrokerCheck users. At the upper end, Hypestat (the only service that provides information for BrokerCheck specifically rather than as a subset of Finra.org) reports an estimated 496,600 unique monthly users who visit 2.49 pages on average.

firms are inspected annually).[31] State regulators, too, rely on prior disciplinary history.[32] Of course, however, if the information has been removed, it cannot be considered (although regulators rely on CRD rather than BrokerCheck, expungements remove the information from CRD). Removing this information, therefore, seems likely to reduce the effectiveness of these monitoring programs.

One additional possible explanation for the finding that expungement increases recidivism comes from the behavioral economics literature. After a non-desirable outcome, psychologists find that people typically become more cautious (e.g., Laming, 1968; Rabbitt & Phillips, 1967; Rabbitt & Rodgers, 1977). By contrast, success arguably breeds overconfidence (Mizruchi, 1991; Gino and Pisano, 2011). In the economics literature, overconfidence can lead to excessive risk-taking (e.g., Odean, 1998; Camerer and Lovallo, 1999). As applied to our setting, this could suggest that brokers who are successful in an expungement proceeding engage in riskier behavior after the proceeding, whereas brokers who are denied expungement become more risk averse. Because risk-taking and antisocial behavior are highly correlated (Mishra and Lalumière, 2008), this would suggest the psychological effect of succeeding on an expungement increases the likelihood of recidivism.

II. Expungement and Career Outcomes

In Table 8, we study whether successful expungements affect career prospects. The results provide limited evidence in favor of this proposition. Panel A studies whether successfully expunged brokers are more likely to retain their job. Panel B studies whether successfully expunged brokers are more likely to move to a different firm.

Panel A provides minimal evidence that successfully expunged brokers are more likely to

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[31] As examples of the utility of disciplinary information, consider FINRA's 2017 Regulatory and Examination Priorities Letter, which stated that FINRA would "focus on firms with a concentration of brokers with significant past disciplinary records." Similarly, in its guidance on conducting branch inspections, FINRA states that some "areas of high risk to consider are: … offices that associate with individuals with a disciplinary history or that previously worked at a firm with a disciplinary history" and that its staff "believe that past guidance suggests that a well-constructed branch office supervisory program should include: procedures for heightened supervision of remote branch offices that have associated persons with disciplinary histories" (FINRA, 2011).

[32] For example, in deciding whether to approve applications, the website for the Wisconsin Department of Financial Institutions states "[w]hen the application has been received via the CRD, any applicant who does not have a disciplinary history will generally be automatically approved. The Division will manually review applicants with disciplinary items on their application."

remain employed at their current position. The panel is limited to brokers employed as registered broker-dealers at the time of their award (including dually registered broker-dealer investment advisers), and the dependent variable is set to 1 if the broker separated from his employer after the award (either registered at another firm or not registered). The coefficients of interest are not statistically significant at standard levels in four of the six models. Further, the two models with statistical significance include only fixed effects (i.e., no controls). Significance disappears in the models with full controls, and the coefficient of interest even becomes positive in some models.[33]

Likewise, Panel B provides minimal evidence that successfully expunged brokers are more likely to be hired by another firm as a registered broker dealer. This panel includes all brokers, including those not employed at the time of the award, and the dependent variable is set to 1 if the broker became employed as a registered broker at a different firm after the expungement award. Although the coefficient of interest is positive in all specifications, it is statistically significant at standard levels in only one of the six models (at 10%).

These results provide little evidence that successful expungements affect career prospects. At first glance, this appears inconsistent with extensive prior literature finding that misconduct and career outcomes are negatively correlated (e.g., Srinivasan, 2005; Fich and Shivdasani, 2007; Karpoff et al., 2008; Egan et al. 2018a). However, it is not clear that expungement completely unwinds the reputation harm associated with misconduct; firms are able to identify expungements even if the infractions are no longer on BrokerCheck. For example, a recent JP Morgan job application asked candidates whether they had been a named defendant/respondent in any arbitrations involving allegations of misconduct related to financial services.[34] This phrasing is broad enough that a broker with expunged misconduct should answer in the affirmative. In sum, interpreting our findings in light of prior literature and anecdotal evidence, it appears that expungement does not fully remove the reputational consequences associated with the original misconduct.

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[33] In unreported tests, we run the tables using only the broker controls from Egan et al. (2018a), and we find the results are stronger but still weak (the OLS result remains significant at 1%, while the IV results are significant at 15%, at best). The inclusion of firm level controls, in particular, appears to drive the decline in significance in the models with full controls.

[34] The full question is as follows. "Are you currently or have you ever been, a named defendant/respondent in any civil lawsuits or arbitrations involving allegations of misconduct related to financial services?"

E. Robustness Tests

In Tables 9 and 10, we present the reduced form regressions of our outcome variables on our instruments. Table 9 presents the reduced form regressions with respect to future misconduct, and Table 10 presents the reduced form regressions with respect to career outcomes. The reduced form regressions in Tables 9 and 10 reflect the causal impact of being assigned to a more or less lenient arbitrator panel. All models use OLS. As before, the results are presenting using both *Arbitrator Leniency* and *Arbitrator Leniency – Adjusted*.

The results in Table 9 are consistent with those in Table 7. In Panel A, which uses the occurrence of a future misconduct as the dependent variable, the models with full controls are statistically significant. These models indicate that, for a one standard deviation increase in the relative leniency of the arbitrator panel, the broker is roughly 1-1.5 percentage points more likely to receive a future allegation of misconduct. In Panel B, which uses the number of future misconducts as the dependent variable, all models are statistically significant.

Similarly, the results in Table 10 are consistent with those in Table 8. Panel A provides weak evidence that brokers who happen to draw a relatively lenient arbitrator panel are less likely to separate from their employer. This is consistent with Panel A of Table 8, which provided similarly weak evidence. Likewise, Panel B provides limited evidence that brokers who happen to draw a relatively lenient arbitrator panel are more likely to be hired by a different firm as a registered broker-dealer. The coefficient of interest is only significant at standard levels in one model, and that model indicates the economic magnitude of the increase is small: for a one standard deviation increase in the relative leniency of the panel, the broker is less than 1.5 percentage points more likely to be hired.

5. Conclusion

We provide the first large-scale analysis of the expungement process, which allows brokers to remove allegations of misconduct from FINRA's public records. Our paper has significant policy implications, as we show that successful and, to a far greater extent, unsuccessful expungement attempts, are a significant predictor of future misconduct. Further, using an instrumental variable to address endogeneity in the decision whether to grant an expungement, we show that expungement increases recidivism. This is consistent with the concerns of state

regulators, who have argued that expungements impair their ability to monitor effectively by making it more difficult to identify bad actors. Finally, using our instrumental variable, we find minimal evidence that successful expungements improve career prospects. This is arguably surprising given that prior literature has concluded that misconduct negatively affects career prospects. Consistent with anecdotal evidence that firms ask about expungement during the hiring process, it suggests that expungements do not entirely remove the reputational harm associated with misconduct.

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Figure 1. This figure shows the number of successful and unsuccessful expungement claims filed between 2007 and 2016.

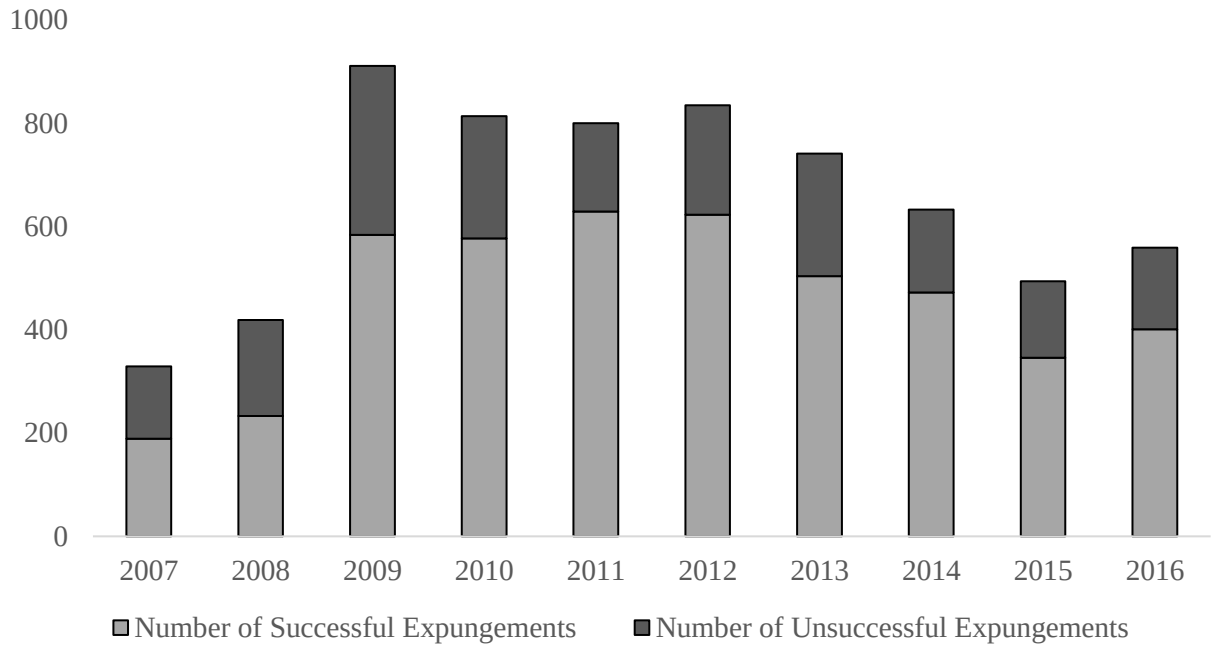


Figure 2. This figure shows the proportion of brokers who filed one, two or more than three expungement requests from 2007 to 2016.

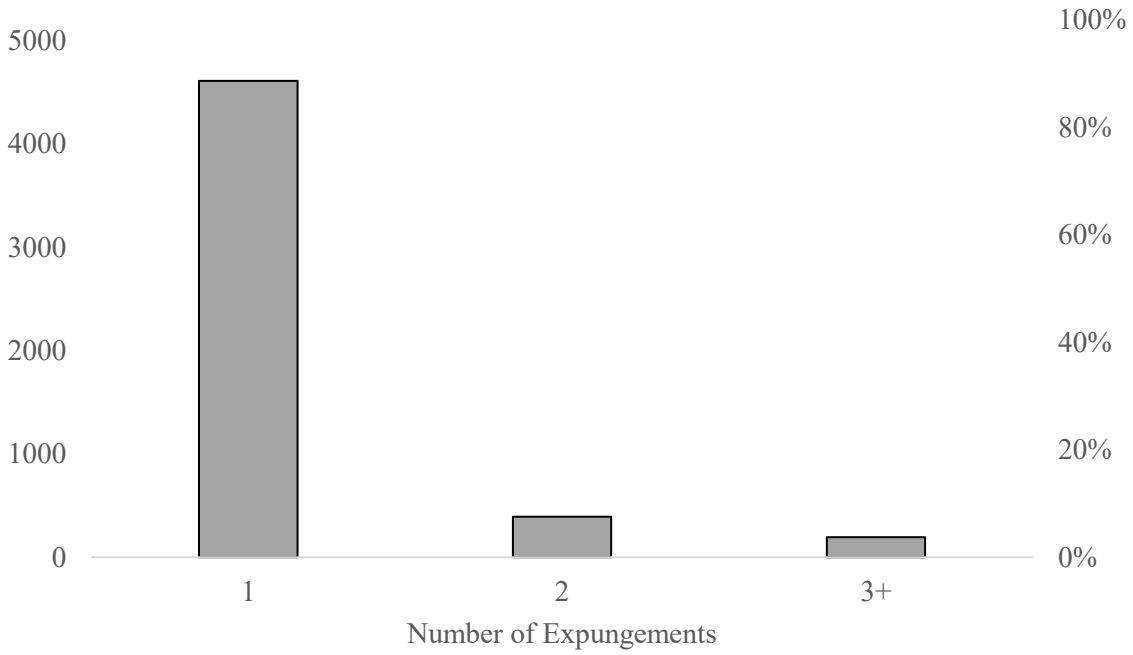


Figure 3. This figure shows the proportion of brokers with successful expungements between 2007 and 2016 who received zero, one, two, or three or more future allegations of misconduct prior to 2018.

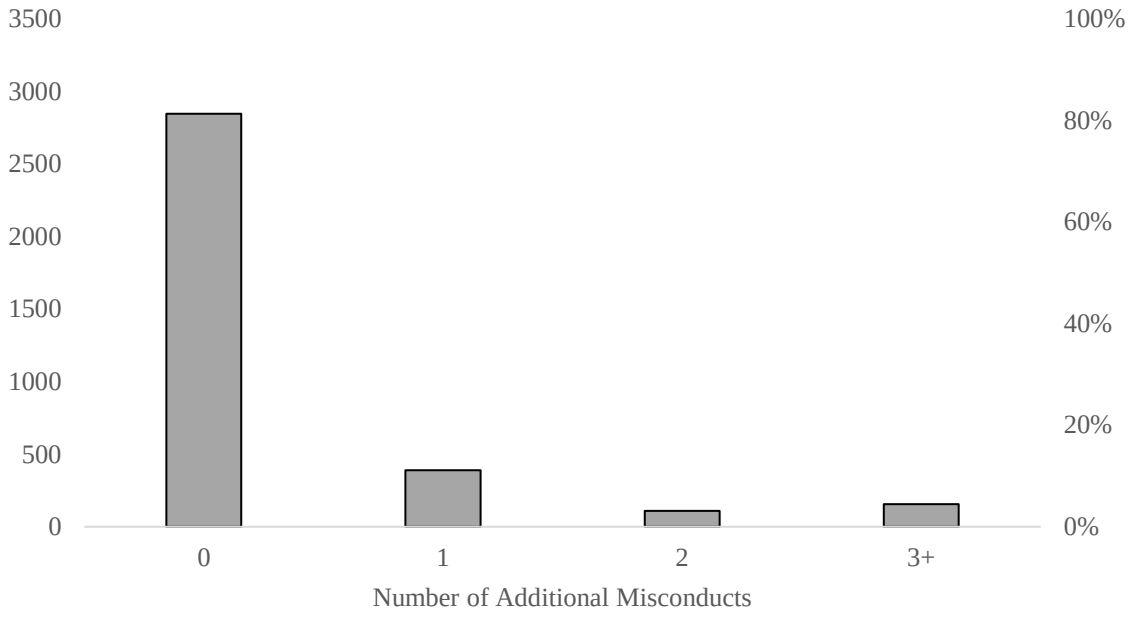


Figure 4. This figure shows the average settlement amount (when disclosed) for customer arbitrations involving a request for expungement. The year represents when the request was filed.

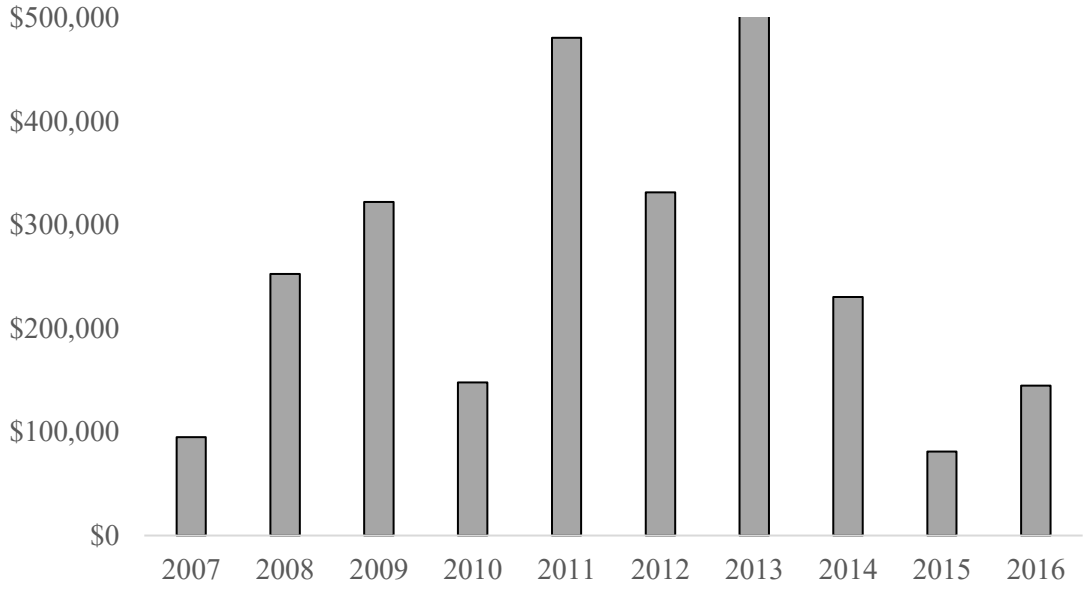


Figure 5. This figure shows the breakdown of the FINRA Rule 2080 justification cited for successful expungements filed between 2007 and 2016. Percentages exceed 100% because many expungement awards cite more than one justification.

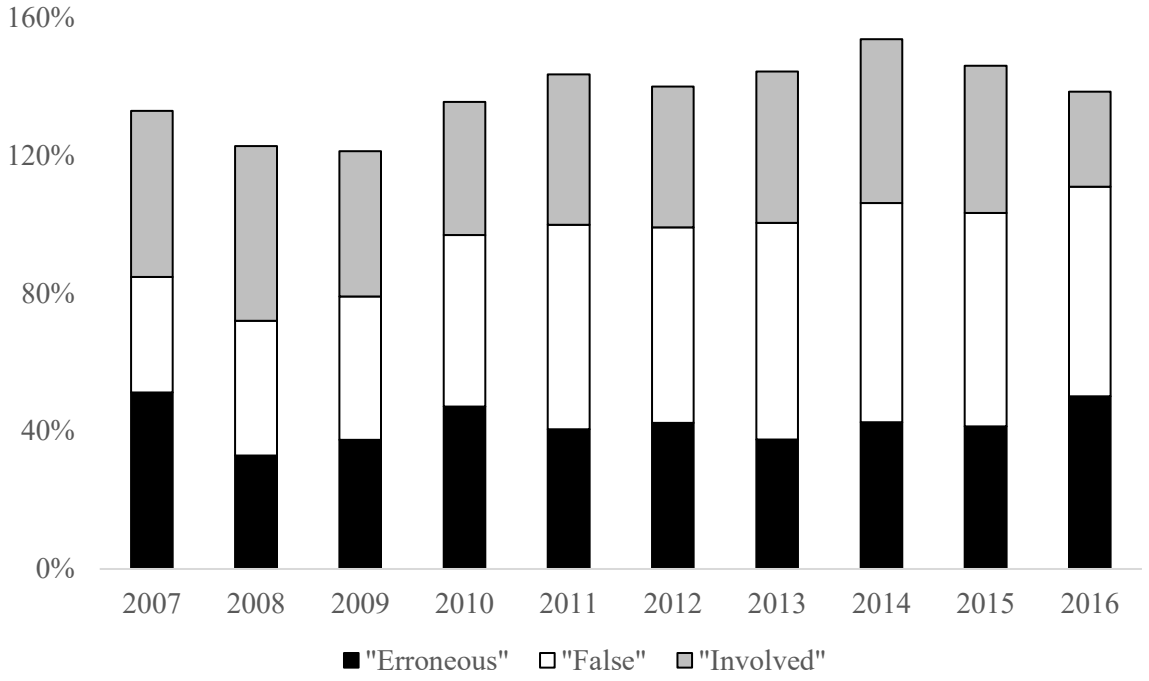
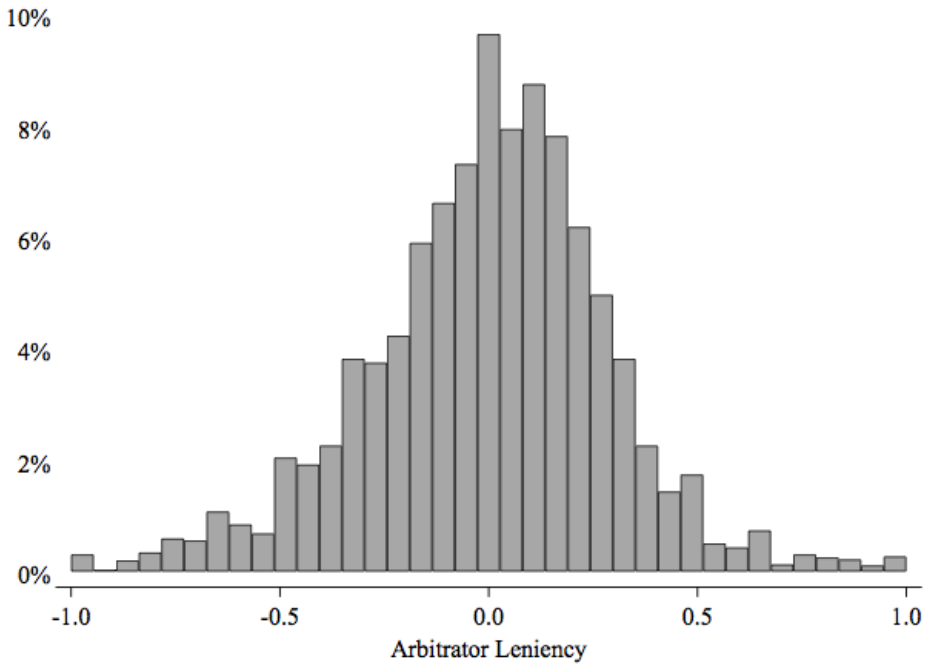


Figure 6. This figure shows the distribution of relative leniencies of expungement arbitration panels. Panel A excludes arbitrators without history in expungement cases when calculating the relative leniency of the panel, while Panel B assigns these arbitrators the mean success rate in their region in the relevant year.

Panel A.



Panel B.

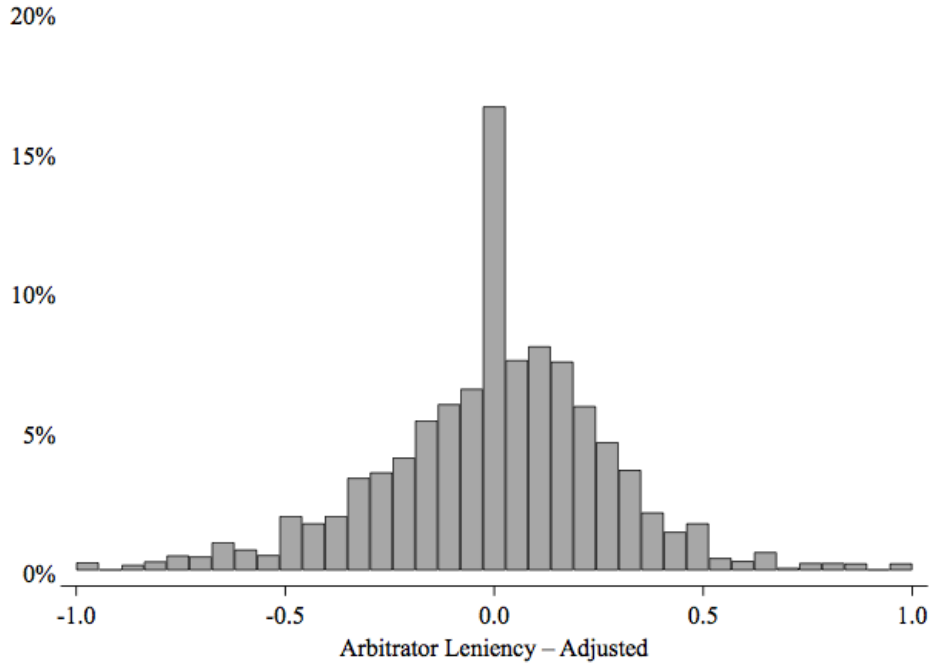
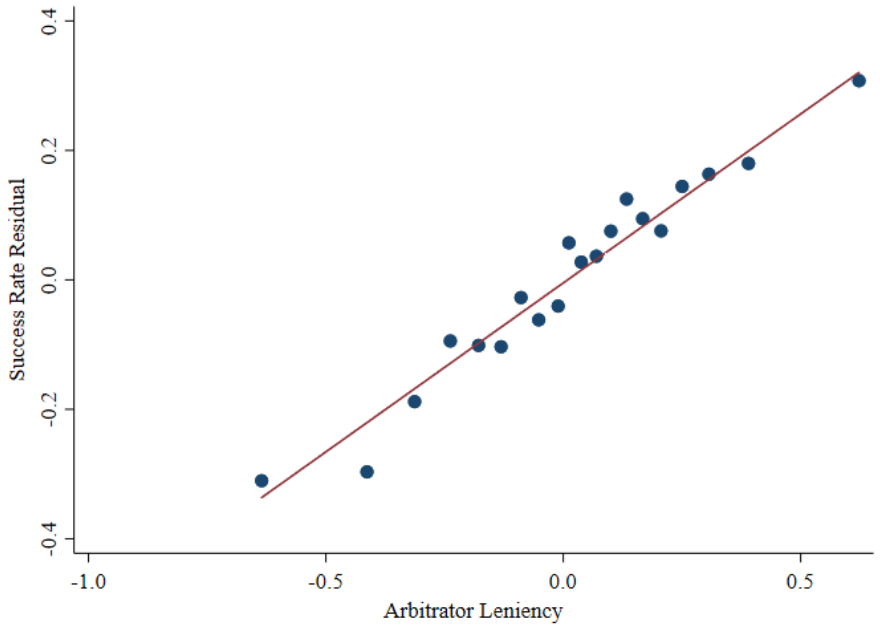


Figure 7. This figure shows the relationship (binned scatter plot) between the relative leniencies of expungement arbitration panels and the residualized success rate. Panel A excludes arbitrators without history in expungement cases when calculating the relative leniency of the panel, while Panel B assigns these arbitrators the mean success rate in their region in the relevant year.

Panel A.



Panel B.

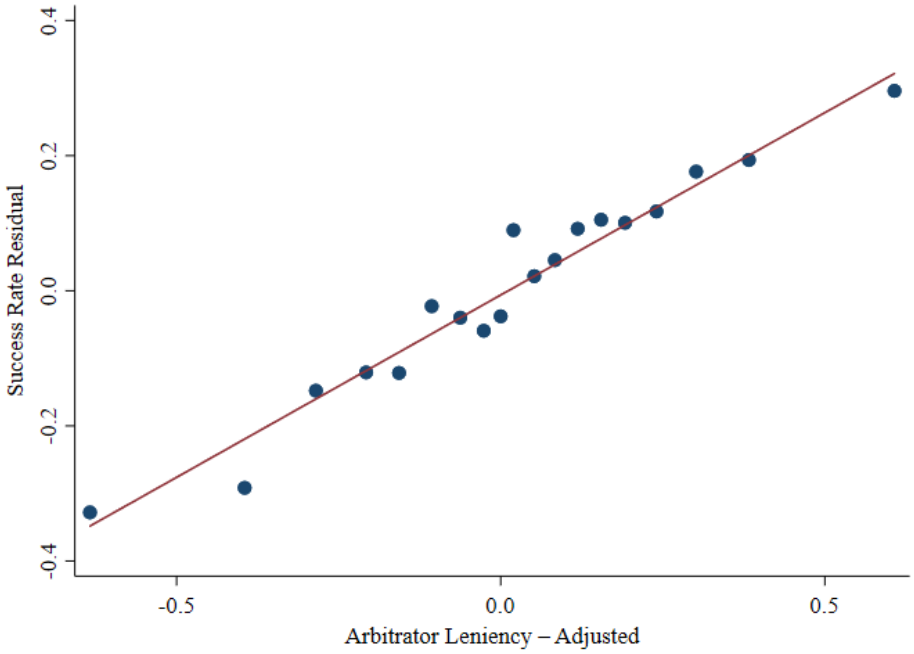


Table 1. Panel A. This table provides summary statistics for brokers from the BrokerCheck data. The BrokerCheck data include a balanced panel of 1.23 million brokers available in FINRA's BrokerCheck database from 2007 to 2017. Observations are broker by year. The panel is divided into two groups: Non-Expungement Brokers and Expungement Brokers. Expungement Brokers are those who filed a request for expungement at least once from 2007 to 2016. Non-Expungement brokers are analogously defined. The final column corresponds to a t-test for equality of means between the two groups. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	Non-Expungement Brokers						Expungement Brokers						t-test
	Obs.	Mean	Std. Dev.	Median	25th Pctl.	75th Pctl.	Obs.	Mean	Std. Dev.	Median	25th Pctl.	75th Pctl.	t
Experience (Years)	13,438,634	10.93	10.28	8.00	2.00	17.00	57,189	22.79	9.83	22.00	16.00	30.00	-287.68***
Retail Brokers	13,438,634	0.25	0.43	0.00	0.00	0.00	57,189	0.64	0.48	1.00	0.00	1.00	-191.75***
Non White	13,438,634	0.12	0.33	0.00	0.00	0.00	57,189	0.07	0.25	0.00	0.00	0.00	48.37***
Registration													
FINRA Registered	13,438,634	0.58	0.49	1.00	0.00	1.00	57,189	0.89	0.32	1.00	1.00	1.00	-234.44***
Investment Adviser	13,438,634	0.39	0.49	0.00	0.00	1.00	57,189	0.82	0.38	1.00	1.00	1.00	-266.75***
Barred	13,438,634	0.01	0.08	0.00	0.00	0.00	57,189	0.02	0.13	0.00	0.00	0.00	-19.36***
Disclosures													
Disclosure (flow in one year)	13,438,634	0.01	0.11	0.00	0.00	0.00	57,189	0.09	0.29	0.00	0.00	0.00	-65.94***
Misconduct (flow in one year)	13,438,634	0.00	0.07	0.00	0.00	0.00	57,189	0.06	0.23	0.00	0.00	0.00	-54.78***
Expungement (flow in one year)	13,438,634	0.00	0.00	0.00	0.00	0.00	57,189	0.10	0.30	0.00	0.00	0.00	-79.12***
Disclosure (stock)	13,438,634	0.10	0.30	0.00	0.00	0.00	57,189	0.52	0.50	1.00	0.00	1.00	-200.93***
Misconduct (stock)	13,438,634	0.04	0.20	0.00	0.00	0.00	57,189	0.39	0.49	0.00	0.00	1.00	-170.41***
Expungements between 2007-2017	13,438,634	0.00	0.00	0.00	0.00	0.00	57,189	1.00	0.00	1.00	1.00	1.00	.
Disclosure (stock – incl. pre-2007)	13,438,634	0.16	0.37	0.00	0.00	0.00	57,189	0.62	0.48	1.00	0.00	1.00	-228.43***
Misconduct (stock – incl. pre-2007)	13,438,634	0.09	0.29	0.00	0.00	0.00	57,189	0.48	0.50	0.00	0.00	1.00	-185.65***
Exams and Qualifications													
Num. Qualifications	13,438,634	2.61	1.36	2.00	2.00	3.00	57,189	3.97	1.59	4.00	3.00	5.00	-204.31***
Uniform Sec. Agent St. Law (63)	13,438,634	0.71	0.45	1.00	0.00	1.00	57,189	0.85	0.35	1.00	1.00	1.00	-94.46***
General Sec. Rep (7)	13,438,634	0.62	0.48	1.00	0.00	1.00	57,189	0.92	0.27	1.00	1.00	1.00	-257.26***
Inv. Co. Products (Rep). (6)	13,438,634	0.40	0.49	0.00	0.00	1.00	57,189	0.17	0.37	0.00	0.00	0.00	150.31***
Uniform Combined St. Law (66)	13,438,634	0.22	0.41	0.00	0.00	0.00	57,189	0.28	0.45	0.00	0.00	1.00	-29.72***
Uniform Inv. Adviser Law (65)	13,438,634	0.16	0.36	0.00	0.00	0.00	57,189	0.48	0.50	0.00	0.00	1.00	-154.27***
General Sec. Principal (24)	13,438,634	0.12	0.32	0.00	0.00	0.00	57,189	0.26	0.44	0.00	0.00	1.00	-76.48***
Observations	13,438,634						57,189						13,495,823

Table 1. Panel B. This table provides summary statistics for firms from the BrokerCheck data. The BrokerCheck data include a balanced panel of firms from 2007 to 2017. Firms dually registered as investment advisers were matched to Form ADV data spanning from 2007 to 2015. As in Panel A, we divide firms into two groups according to whether any FINRA-registered brokers employed by the firm filed a request for expungement from 2007 to 2016. The final column corresponds to a t-test for equality of means between the two groups. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	Firms Without Expungement Attempts					Firms With Expungement Attempts					t-test
	Obs.	No. Firms	Mean	Std. Dev.	Median	Obs.	No. Firms	Mean	Std. Dev.	Median	t
BrokerCheck Data											
Investment Adviser	51,283	7,120	0.19	0.39	0.00	1,530	699	0.58	0.49	1.00	-30.70***
Affiliated w/ Fin. Inst.	51,283	7,120	0.38	0.49	0.00	1,530	699	0.66	0.47	1.00	-22.51***
Firm Age	51,241	7,103	21.24	12.81	18.00	1,530	699	28.14	17.97	23.00	-14.90***
Num. Business Lines	51,279	7,118	3.75	4.42	2.00	1,530	699	10.19	7.49	12.00	-33.40***
Num. of Brokers	51,283	7,120	81.50	583.58	9.00	1,530	699	2352.51	5307.55	379.50	-16.73***
Firm Employee Misconduct (flow in one year)	51,283	7,120	0.01	0.05	0.00	1,530	699	0.03	0.06	0.01	-12.32***
Firm Employee Misconduct (stock - including pre-2007)	51,283	7,120	0.13	0.20	0.04	1,530	699	0.20	0.16	0.15	-17.03***
Active	51,283	7,120	0.67	0.47	1.00	1,530	699	0.74	0.44	1.00	-6.46***
Num. of States	51,279	7,118	15.44	20.13	3.00	1,530	699	36.18	23.27	52.00	-34.47***
Expelled Firms	51,283	7,120	0.02	0.15	0.00	1,530	699	0.06	0.24	0.00	-6.46***
Form ADV Data											
Services Retail Clients	3,554	714	0.83	0.38	1.00	682	236	0.95	0.22	1.00	-11.40***
Number of Accounts	3,343	674	3984.89	18410.80	541.00	646	226	99714.72	269510.15	8032.50	-9.02***
Assets Under Management ($ millions)	3,343	674	2226.02	9543.29	237.02	646	226	25154.62	67998.62	1871.48	-8.55***
Compensation/ Fee Structure											
Hourly	3,554	714	0.45	0.50	0.00	682	236	0.57	0.50	1.00	-6.02***
Fixed Fee	3,554	714	0.56	0.50	1.00	682	236	0.80	0.40	1.00	-13.65***
Commission	3,554	714	0.43	0.50	0.00	682	236	0.56	0.50	1.00	-6.10***
Performance	3,554	714	0.11	0.31	0.00	682	236	0.12	0.33	0.00	-1.05
Observations	51,283					1,530					52,813

Table 2. This table provides summary statistics for the Expungement Data. Observations are presented by broker even if multiple brokers requested expungement in the same arbitration award. We divide observations into two groups—those for which expungement was granted and those for which expungement was denied. The final column corresponds to a t-test for equality of means between the two groups. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	All Expungements				Successful				Unsuccessful				t-test
	Obs.	Mean	Std. Dev.	Median	Obs.	Mean	Std. Dev.	Median	Obs.	Mean	Std. Dev.	Median	t
Broker Characteristics													
Barred	6,419	0.019	0.14	0.000	4,470	0.007	0.09	0.000	1,949	0.045	0.21	0.000	-10.31***
Prior Successful Expungement	6,419	0.100	0.30	0.000	4,470	0.116	0.32	0.000	1,949	0.064	0.25	0.000	6.37***
Employed in FINRA Registered Capacity	6,419	0.868	0.34	1.000	4,470	0.897	0.30	1.000	1,949	0.802	0.40	1.000	10.42***
Gender													
Female	6,257	0.128	0.33	0.000	4,353	0.135	0.34	0.000	1,904	0.112	0.32	0.000	2.51*
Ethnicity													
White	6,419	0.931	0.25	1.000	4,470	0.935	0.25	1.000	1,949	0.920	0.27	1.000	2.20*
Black	6,419	0.002	0.05	0.000	4,470	0.002	0.05	0.000	1,949	0.002	0.05	0.000	0.15
Asian Pacific Islander	6,419	0.020	0.14	0.000	4,470	0.015	0.12	0.000	1,949	0.030	0.17	0.000	-3.79***
Hispanic	6,419	0.048	0.21	0.000	4,470	0.047	0.21	0.000	1,949	0.048	0.21	0.000	-0.18
Contribute Republican													
Contribute Republican	6,419	0.172	0.38	0.000	4,470	0.177	0.38	0.000	1,949	0.161	0.37	0.000	1.62
Contribute Democrat	6,419	0.108	0.31	0.000	4,470	0.111	0.31	0.000	1,949	0.102	0.30	0.000	1.06
Contribute Both	6,419	0.039	0.19	0.000	4,470	0.039	0.19	0.000	1,949	0.039	0.19	0.000	0.03
Contribute Neither Party	6,419	0.759	0.43	1.000	4,470	0.751	0.43	1.000	1,949	0.777	0.42	1.000	-2.18*
Total Sum Contributed	6,419	3,429	104,356	0	4,470	3,692	108,354	0	1,949	2,828	94,575	0	0.30
Arbitration Characteristics													
No. Brokers Per Case	6,419	1.898	2.09	1.000	4,470	1.890	2.27	1.000	1,949	1.917	1.57	1.000	-0.48
Panel of Arbitrators	6,416	0.777	0.42	1.000	4,470	0.781	0.41	1.000	1,946	0.768	0.42	1.000	1.13
Opposed	6,416	0.446	0.50	0.000	4,470	0.284	0.45	0.000	1,946	0.818	0.39	1.000	-45.45***
Years from Infraction to Claim	254	4.594	3.40	4.000	221	4.561	3.37	4.000	33	4.818	3.68	4.594	-0.40
Year from Claim to Award	6,419	1.401	0.83	1.000	4,470	1.390	0.80	1.000	1,949	1.427	0.88	1.000	-1.66
Justification for Expungement													
False	6,419	0.363	0.48	0.000	4,470	0.517	0.50	1.000	1,949	0.010	0.10	0.000	44.47***
Involved	6,419	0.279	0.45	0.000	4,470	0.400	0.49	0.000	1,949	0.002	0.04	0.000	35.87***
Erroneous	6,419	0.280	0.45	0.000	4,470	0.401	0.49	0.000	1,949	0.001	0.03	0.000	36.02***
Truly Erroneous	6,419	0.050	0.22	0.000	4,470	0.070	0.26	0.000	1,949	0.003	0.05	0.000	11.59***

Table 2. Continued.

	All Expungements				Successful				Unsuccessful				t-test
	Obs.	Mean	Std. Dev.	Median	Obs.	Mean	Std. Dev.	Median	Obs.	Mean	Std. Dev.	Median	t
Settlement Characteristics													
Broker Contributes	6,419	0.038	0.19	0.000	4,470	0.018	0.13	0.000	1,949	0.082	0.27	0.000	-12.40***
Firm Contributes	6,419	0.149	0.36	0.000	4,470	0.151	0.36	0.000	1,949	0.143	0.35	0.000	0.86
Both Contribute	6,419	0.066	0.25	0.000	4,470	0.027	0.16	0.000	1,949	0.155	0.36	0.000	-19.66***
Settlement	6,414	0.675	0.47	1.000	4,465	0.777	0.42	1.000	1,949	0.443	0.50	0.000	27.75***
Settlement Amount	2,891	273,680	2,209,290	0	1,548	82,320	361,072	0	1,343	494,249	3,204,676	9,000	-5.02***
Firm Characteristics													
Num. Brokers	5,572	11,775	12,113	6,039	4,009	12,737	12,207	10,342	1,563	9,307	11,513	2,270	9.57***
Num. Retail Brokers	5,572	7,226	7,897	2,762	4,009	7,869	8,024	4,005	1,563	5,579	7,311	1,031	9.81***
Taping/Disciplined Firm	6,419	0.011	0.10	0.000	4,470	0.003	0.06	0.000	1,949	0.028	0.16	0.000	-8.90***
Complaint Characteristics													
Initiated By													
Customer	6,419	0.736	0.44	1.000	4,470	0.712	0.45	1.000	1,949	0.793	0.41	1.000	-6.85***
Broker	6,419	0.228	0.42	0.000	4,470	0.257	0.44	0.000	1,949	0.162	0.37	0.000	8.36***
Type of Violation - Customer Initiated													
Unsuitable	6,419	0.356	0.48	0.000	4,470	0.341	0.47	0.000	1,949	0.393	0.49	0.000	-3.99***
Misrepresentation	6,419	0.413	0.49	0.000	4,470	0.403	0.49	0.000	1,949	0.436	0.50	0.000	-2.45*
Unauthorized	6,419	0.096	0.29	0.000	4,470	0.083	0.28	0.000	1,949	0.126	0.33	0.000	-5.41***
Omission	6,419	0.211	0.41	0.000	4,470	0.211	0.41	0.000	1,949	0.211	0.41	0.000	-0.01
Fee/Commission	6,419	0.023	0.15	0.000	4,470	0.021	0.14	0.000	1,949	0.028	0.16	0.000	-1.58
Fraud	6,419	0.386	0.49	0.000	4,470	0.381	0.49	0.000	1,949	0.398	0.49	0.000	-1.29
Fiduciary Duty	6,419	0.607	0.49	1.000	4,470	0.587	0.49	1.000	1,949	0.653	0.48	1.000	-4.97***
Negligence	6,419	0.572	0.49	1.000	4,470	0.560	0.50	1.000	1,949	0.598	0.49	1.000	-2.80**
Risky	6,419	0.053	0.22	0.000	4,470	0.058	0.23	0.000	1,949	0.043	0.20	0.000	2.55*
Churning/Excessive Trading	6,419	0.062	0.24	0.000	4,470	0.046	0.21	0.000	1,949	0.098	0.30	0.000	-7.93***
Type of Violation - Firm/Broker Initiated													
Slander/Libel/Defamation	6,419	0.070	0.25	0.000	4,470	0.067	0.25	0.000	1,949	0.076	0.26	0.000	-1.28
Interference	6,419	0.042	0.20	0.000	4,470	0.040	0.20	0.000	1,949	0.048	0.21	0.000	-1.40
Unfair Practices	6,419	0.019	0.14	0.000	4,470	0.016	0.12	0.000	1,949	0.026	0.16	0.000	-2.85**
Wrongful Termination	6,419	0.034	0.18	0.000	4,470	0.024	0.15	0.000	1,949	0.055	0.23	0.000	-6.40***
Other Employment Related	6,419	0.231	0.42	0.000	4,470	0.255	0.44	0.000	1,949	0.178	0.38	0.000	6.71***
Observations	6,419				4,470				1,949				6,419

Table 3. Panel A. This table ranks firms by the frequency of expungement after restricting to firms with more than 100 registered brokers. Column (1) ranks firms by the largest number of expungement requests. Column (2) ranks firms by the ratio of expungement requests to the total misconduct disclosures. Column (3) ranks firms by the ratio of expungement requests to the total number of registered brokers. Column (4) ranks firms by the ratio of expungement requests to the total number of registered retail brokers.

Greatest Number of Expungements	N	Highest % of Expungements Relative to Misconduct Infraction	p	Highest % of Expungements Relative to Total Brokers	p	Highest % of Expungements Relative to Retail Brokers	p
Morgan Stanley	512	Calvert Investment Distributors, Inc	100%	UBS Financial Services Incorporated Of Puerto Rico	4%	Ace Diversified Capital, Inc	100%
Wells Fargo Clearing Services, LLC	479	Newbury Street Capital Limited Partnership	100%	NSM Securities, Inc	4%	RP Capital LLC	33%
Merrill Lynch, Pierce, Fenner & Smith Incorporated	391	Willis Securities, Inc	100%	Portfolio Advisors Alliance, LLC	3%	Kensington Capital Corp	27%
UBS Financial Services Inc	361	Swedbank Securities Us, LLC	100%	Accelerated Capital Group	3%	The Delta Company	25%
Ameriprise Financial Services, Inc	165	Candlewood Securities, LLC	100%	Network 1 Financial Securities Inc	3%	Accelerated Capital Group	23%
LPL Financial LLC	141	Carnes Capital Corporation	50%	First Standard Financial Company LLC	3%	Lighthouse Capital Corporation	18%
Edward Jones	115	Jefferies Bache Securities, LLC	50%	RP Capital LLC	2%	RW Towt & Associates	17%
Charles Schwab & Co, Inc	98	Presidio Merchant Partners LLC	50%	Kensington Capital Corp	2%	iTRADEdirect.com Corp	17%
Securities America, Inc	74	SC Distributors, LLC	50%	Allied Millennial Partners, LLC	2%	Advantage Securities LLC	14%
Stifel, Nicolaus & Company, Incorporated	70	Hunter Associates LLC	50%	Brookville Capital Partners	2%	Navian Capital Securities LLC	14%

Table 3. Panel B. This table examines employment outcomes for a random sample of 1,515 brokers who applied for expungement and experienced at least one employment separation. Column (1) records the most popular destinations for brokers who switched roles prior to the expungement award. Column (2) records the most popular destinations for brokers who switched roles after a successful expungement award. Column (3) records the most popular destinations for brokers who switched roles after an unsuccessful expungement award.

Career Switches Before Expungement Award	N	p	Career Switches After Successful Expungement Award	N	p	Career Switches After Unsuccessful Expungement Award	N	p
FINRA-Registered Firm in Registered Capacity	1147	90%	FINRA-Registered Firm in Registered Capacity	408	68%	FINRA-Registered Firm in Registered Capacity	199	56%
Unregistered Financial Firm	23	2%	Unregistered Financial Firm	28	5%	Unregistered Financial Firm	35	10%
FINRA-Registered Firm in Unregistered Capacity	21	2%	FINRA-Registered Firm in Unregistered Capacity	28	5%	FINRA-Registered Firm in Unregistered Capacity	17	5%
Non-Financial Company	14	1%	Non-Financial Company	33	6%	Non-Financial Company	12	3%
Unknown	63	5%	Unknown	86	14%	Unknown	84	24%
Non-Profit/Government	2	0%	Non-Profit/Government	4	1%	Non-Profit/Government	2	1%
Self-Employed	1	0%	Self-Employed	3	1%	Self-Employed	0	0%
Retired	2	0%	Retired	1	0%	Retired	3	1%
Prison	0	0%	Prison	0	0%	Prison	2	1%
University	2	0%	University	3	1%	University	0	0%
Unemployed	0	0%	Unemployed	3	1%	Unemployed	1	0%
Deceased	0	0%	Deceased	2	0%	Deceased	1	0%
Number of Unique Brokers	799			396			240	
Total Switches	1,275			599			355	

Table 4. Panel A. This table examines the determinants of misconduct. Panel A uses the full set of brokers in BrokerCheck. The dependent variable is a dummy for whether there was a new allegation of misconduct (or an expunged allegation) in a particular year. In Column (1), the variable of interest is a dummy for whether the broker had a misconduct in any year prior to the new misconduct. In Column (2), the variable of interest is a dummy for whether the broker had a successful expungement in any year prior to the new misconduct. In Column (3), the variable of interest is a dummy for whether the broker had an unsuccessful expungement in any year prior to the new misconduct. The remaining columns use a combination of these variables. All models include year-county-firm fixed effects and control for the broker's years of experience, gender, race, total qualifications, and whether the broker has passed the following exams: Series 65 or 66, 24, 6 and 7. Standard errors are clustered by firm, and t-statistics are in parentheses. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Prior Misconduct	0.045***			0.045***	0.044***		0.044***
	(15.524)			(15.345)	(13.415)		(13.299)
Prior Successful Expungement		0.028***		0.020***		0.024***	0.017***
		(7.598)		(7.791)		(7.002)	(7.008)
Prior Unsuccessful Expungement			0.092***		0.078***	0.091***	0.077***
			(23.920)		(14.145)	(23.763)	(13.966)
Constant	0.002***	0.002***	0.002***	0.002***	0.002***	0.002***	0.002***
	(4.493)	(2.926)	(2.968)	(4.498)	(4.463)	(2.985)	(4.468)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year X County X Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	12,290,564	12,290,564	12,290,564	12,290,564	12,290,564	12,290,564	12,290,564
Adj. R-Square	0.102	0.094	0.096	0.102	0.103	0.096	0.103
F-Stat (Ind. Var. 1 == Ind. Var. 2)				111.816	18.128	176.988	
P-Value (Ind. Var. 1 == Ind. Var. 2)				0.000	0.000	0.000	
Chi-Square (LR Test)				1247.321	20501.570		21403.335
P-Value (LR Test)				0.000	0.000		0.000

Table 4. Panel B. This table examines the determinants of misconduct. Panel B uses the set of registered broker-dealers to examine the determinants of misconduct (i.e., the panel is not balanced, as brokers who are not registered in a given year are dropped). The dependent variable is a dummy for whether there was a new allegation of misconduct (or an expunged allegation) in a particular year. In Column (1), the variable of interest is a dummy for whether the broker had a misconduct in any year prior to the new misconduct. In Column (2), the variable of interest is a dummy for whether the broker had a successful expungement in any year prior to the new misconduct. In Column (3), the variable of interest is a dummy for whether the broker had an unsuccessful expungement in any year prior to the new misconduct. The remaining columns use a combination of these variables. All models include year-county-firm fixed effects and control for the broker's years of experience, gender, race, total qualifications, and whether the broker has passed the following exams: Series 65 or 66, 24, 6 and 7. Standard errors are clustered by firm, and t-statistics are in parentheses. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Prior Misconduct	0.041***			0.041***	0.039***		0.038***
	(16.753)			(16.747)	(15.963)		(15.955)
Prior Successful Expungement		0.025***		0.019***		0.021***	0.016***
		(8.074)		(7.029)		(7.487)	(6.371)
Prior Unsuccessful Expungement			0.094***		0.083***	0.093***	0.083***
			(20.781)		(20.325)	(20.947)	(20.451)
Constant	0.004***	0.004***	0.004***	0.004***	0.004***	0.004***	0.004***
	(7.065)	(6.884)	(7.020)	(7.103)	(7.211)	(7.069)	(7.242)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year X County X Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	7,420,741	7,420,741	7,420,741	7,420,741	7,420,741	7,420,741	7,420,741
Adj. R-Square	0.088	0.084	0.086	0.088	0.090	0.086	0.090
F-Stat (Ind. Var. 1 == Ind. Var. 2)				77.236	144.702	325.871	
P-Value (Ind. Var. 1 == Ind. Var. 2)				0.000	0.000	0.000	
Chi-Square (LR Test)				730.696	15074.173		15593.021
P-Value (LR Test)				0.000	0.000		0.000

Table 5. This table examines the determinants of expungement filings and successful expungements. The first two columns examine who files for expungement and include all brokers with one or more misconducts. The dependent variable is whether the broker filed an expungement request in a particular year. The final two columns examine the determinants of successful expungements and include only brokers who filed for expungement. The dependent variable is equal to 1 if the expungement was successful. Standard errors are clustered by broker. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	(1)	(2)	(3)	(4)
Broker Characteristics				
Total Number of Disclosures 2007-2017		0.000		
		(0.625)		
Prior Successful Expungement			0.030	
			(1.445)	
Prior Unsuccessful Expungement				-0.713***
				(-26.947)
Female	0.002*	0.003**	0.049***	0.041**
	(1.898)	(2.106)	(3.111)	(2.086)
Non-White	0.002	0.001	-0.028	-0.017
	(0.565)	(0.515)	(-1.154)	(-1.170)
Experience / 10	0.003***	0.002***	-0.017**	-0.009**
	(4.453)	(3.767)	(-2.434)	(-2.030)
Total Qualifications	0.007***	0.007***	-0.009	0.005
	(10.034)	(9.965)	(-1.157)	(0.822)
Barred	-0.005**	-0.007*	-0.185***	-0.010
	(-2.222)	(-1.827)	(-3.697)	(-0.214)
Retail	0.002	0.002	0.036**	-0.003
	(1.443)	(1.630)	(2.535)	(-0.243)
Investment Adviser	-0.006***	-0.006***	0.045**	-0.022
	(-3.237)	(-3.250)	(2.372)	(-0.855)
Contribute Republican			0.018	0.032**
			(1.414)	(2.418)
Contribute Democrat			0.012	0.003
			(0.722)	(0.309)
Case Characteristics				
Settlement			0.132***	0.045***
			(8.046)	(3.638)
Broker Contributes to Settlement			-0.217***	-0.085***
			(-5.317)	(-3.611)
Opposed			-0.365***	-0.144***
			(-22.490)	(-8.164)
Form U5			0.242***	0.056***
			(9.803)	(3.125)
Wrongful Termination			-0.136***	-0.030
			(-3.247)	(-1.619)
Unfair Practices			-0.097	-0.035
			(-1.488)	(-1.396)
Firm Characteristics				
Taping and/or Disciplined Firm	0.046***	0.045***	-0.085	-0.068
	(3.221)	(3.153)	(-0.739)	(-1.525)
Num. Brokers	0.000	0.000	0.000	0.000
	(0.818)	(0.852)	(1.091)	(0.301)
Investment Adviser	-0.000	-0.000	0.000	0.000
	(-1.228)	(-1.211)	(0.282)	(0.384)
Num. Retail Brokers	0.000***	0.000***	-0.000	-0.000
	(3.520)	(3.517)	(-0.504)	(-0.523)
Total Expungements per Year	0.046***	0.045***	-0.085	-0.068
	(3.221)	(3.153)	(-0.739)	(-1.525)
Arbitrator Characteristics				
Female			-0.002	0.003
			(-0.255)	(0.497)
Constant	0.003	0.002		
	(1.049)	(0.714)		
Hearing Site FE	No	No	Yes	Yes
Observations	194,289	194,289	5,412	5,412
Adj. R-Square	0.003	0.003	0.294	0.693

Table 6. This table presents the first-stage regression showing that the correlation between the relative leniency of the arbitrator panel (the instrument) and expungement success. The relative leniency of the arbitrator panel is calculated as the median leave-out success rate of all randomly chosen potential arbitrators minus the mean annual success rate in the FINRA geographic region. Success rate is the number of successful expungement awards divided by the total number of expungement awards. The dependent variable is equal to 1 if the expungement was successful. Columns (1) and (2) exclude arbitrators with no expungement history, while columns (3) and (4) set these arbitrators to the regional mean in a given year. All models include year-region fixed effects, and the even-numbered columns include broker, case, firm and arbitrator controls. Standard errors are double clustered by arbitrator and broker. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	(1)	(2)	(3)	(4)
Relative Leniency of Arbitrator Panel	0.775***	0.261***		
	(31.094)	(12.014)		
Relative Leniency of Arbitrator Panel (Adj.)			0.791***	0.261***
			(30.821)	(11.893)
Broker Characteristics				
Prior Successful Expungement		0.198***		0.198***
		(7.053)		(7.011)
Prior Unsuccessful Expungement		-0.683***		-0.689***
		(-33.311)		(-34.133)
Female		0.034**		0.035**
		(2.275)		(2.317)
Non-White		-0.003		-0.005
		(-0.214)		(-0.294)
Experience / 10		-0.010**		-0.010*
		(-2.033)		(-1.935)
Total Qualifications		-0.000		0.000
		(-0.036)		(0.093)
Contribute Republican		0.000		0.000
		(0.000)		(0.000)
Contribute Democrat		0.000		0.000
Case Characteristics				
Ln(Settlement+1)		0.046***		0.047***
		(2.944)		(2.996)
Broker Contributes to Settlement		-0.097***		-0.094***
		(-4.140)		(-4.092)
Opposed		-0.114***		-0.112***
		(-8.523)		(-8.486)
Wrongful Termination		-0.040*		-0.040*
		(-1.715)		(-1.728)
Unfair Practices		-0.052*		-0.053*
		(-1.774)		(-1.882)
Form U5		0.068***		0.066***
		(3.612)		(3.536)
Customer Initiated		-0.005		-0.007
		(-0.293)		(-0.454)
Firm Characteristics				
Taping and/or Disciplined Firm		-0.010		-0.006
		(-0.155)		(-0.102)
Num. Brokers		0.000		0.000
		(1.542)		(1.494)
Total Expungements per Year		-0.000		-0.000
		(-0.463)		(-0.441)
Arbitrator Characteristics				
Female		-0.002		-0.003
		(-0.430)		(-0.598)
Year X Region FE	Yes	Yes	Yes	Yes
Observations	6,139	5,076	6,215	5,136
Adj. R-Squared	0.282	0.744	0.273	0.745

Table 7. Panel A. This table shows the effect of a successful expungement on recidivism. The dependent variable in Panel A is a dummy variable for whether the broker received any misconduct after the expungement. Only brokers who applied for expungement during our sample period are included. The first two columns reflect the OLS results, and the final four columns reflect 2SLS results. All models include region-year fixed effects. Standard errors are double clustered by arbitrator and broker. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	OLS		2SLS			
	(1)	(2)	(3)	(4)	(5)	(6)
Successful Expungement	0.022*	0.252***	0.018	0.388***	0.018	0.330**
(Predicted value for 2SLS)	(1.873)	(6.708)	(0.675)	(2.622)	(0.666)	(2.114)
Broker Characteristics						
Prior Successful Expungement		0.849***		0.823***		0.833***
		(54.316)		(23.570)		(22.871)
Prior Unsuccessful Expungement		0.294***		0.409***		0.360***
		(8.090)		(3.271)		(2.722)
Female		-0.019*		-0.020*		-0.019*
		(-1.665)		(-1.728)		(-1.677)
Non-White		0.010		0.009		0.010
		(0.501)		(0.455)		(0.492)
Experience / 10		0.005		0.005		0.005
		(1.122)		(1.048)		(1.224)
Total Qualifications		0.019***		0.019***		0.019***
		(3.560)		(3.499)		(3.549)
Case Characteristics						
Settlement		0.021**		0.017		0.018
		(1.982)		(1.468)		(1.634)
Broker Contributes to Settlement		-0.018		-0.012		-0.015
		(-0.717)		(-0.464)		(-0.583)
Opposed		0.002		0.012		0.008
		(0.224)		(0.828)		(0.494)
Form U5		0.003		0.006		0.005
		(0.142)		(0.306)		(0.256)
Wrongful Termination		-0.033		-0.029		-0.031
		(-0.843)		(-0.714)		(-0.799)
Unfair Practices		-0.031*		-0.039**		-0.035*
		(-1.696)		(-2.050)		(-1.831)
Customer Initiated		-0.000		-0.001		-0.001
		(-0.010)		(-0.089)		(-0.085)
Firm Characteristics						
Taping and/or Disciplined Firm		0.162		0.155		0.158
		(1.479)		(1.418)		(1.450)
Num. Brokers		-0.000**		-0.000**		-0.000**
		(-2.134)		(-2.348)		(-2.185)
Total Expungements per Year		0.000		0.000		0.000
		(1.282)		(1.380)		(1.322)
Arbitrator Characteristics						
Female		0.010*		0.010		0.010*
		(1.736)		(1.573)		(1.719)
Year X Region FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,531	4,786	5,405	4,675	5,468	4,730
Adj. R-Square	0.026	0.537				

Table 7. Panel B. This table shows the effect of a successful expungement on recidivism. The dependent variable in Panel B is the number of future misconducts received by the broker after the expungement. Only brokers who applied for expungement during our sample period are included. The first two columns reflect the OLS results, and the final four columns reflect 2SLS results. All models include region-year fixed effects. Standard errors are double clustered by arbitrator and broker. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	OLS		2SLS			
	(1)	(2)	(3)	(4)	(5)	(6)
Successful Expungement	0.056**	0.453***	0.118*	1.185***	0.122*	1.143***
(Predicted value for 2SLS)	(2.529)	(3.304)	(1.744)	(3.223)	(1.802)	(3.037)
Broker Characteristics						
Prior Successful Expungement		1.711***		1.570***		1.575***
		(8.724)		(9.176)		(9.239)
Prior Unsuccessful Expungement		0.514***		1.129***		1.093***
		(3.421)		(3.607)		(3.405)
Female		-0.013		-0.023		-0.021
		(-0.316)		(-0.580)		(-0.546)
Non-White		-0.041		-0.046		-0.045
		(-0.807)		(-0.888)		(-0.873)
Experience / 10		0.004		0.006		0.007
		(0.240)		(0.348)		(0.420)
Total Qualifications		0.012		0.014		0.014
		(0.976)		(1.090)		(1.064)
Case Characteristics						
Settlement		0.012		-0.011		-0.011
		(0.618)		(-0.479)		(-0.475)
Broker Contributes to Settlement		-0.114**		-0.084*		-0.088*
		(-2.531)		(-1.807)		(-1.939)
Opposed		-0.000		0.052		0.047
		(-0.013)		(1.489)		(1.366)
Form U5		-0.046		-0.026		-0.025
		(-1.086)		(-0.609)		(-0.602)
Wrongful Termination		-0.104		-0.085		-0.085
		(-1.268)		(-1.031)		(-1.071)
Unfair Practices		-0.199***		-0.239***		-0.234***
		(-4.196)		(-3.952)		(-3.891)
Customer Initiated		-0.201***		-0.210***		-0.208***
		(-3.436)		(-3.500)		(-3.492)
Firm Characteristics						
Taping and/or Disciplined Firm		0.251		0.221		0.223
		(0.966)		(0.849)		(0.859)
Num. Brokers		-0.000*		-0.000**		-0.000**
		(-1.671)		(-2.061)		(-2.014)
Total Expungements per Year		0.000		0.000		0.000
		(0.174)		(0.395)		(0.371)
Arbitrator Characteristics						
Female		0.001		-0.000		0.001
		(0.079)		(-0.021)		(0.061)
Year X Region FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,531	4,786	5,405	4,675	5,468	4,730
Adj. R-Square	0.085	0.461				

Table 8. Panel A. This table shows the effect of a successful expungement on career outcomes. The dependent variable is a dummy variable for whether the broker separated from her employer after the expungement. Only brokers who applied for expungement during our sample period, and were employed as registered brokers at the time of the expungement award, are included. The first two columns reflect the OLS results, and the final four columns reflect 2SLS results. All models include region-year fixed effects. Standard errors are double clustered by arbitrator and broker. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	OLS		2SLS			
	(1)	(2)	(3)	(4)	(5)	(6)
Successful Expungement	-0.096***	-0.035	-0.079*	0.202	-0.070	0.341
(Predicted value for 2SLS)	(-4.743)	(-0.678)	(-1.727)	(0.735)	(-1.478)	(1.143)
Broker Characteristics						
Prior Successful Expungement		0.086**		0.040		0.011
		(2.083)		(0.570)		(0.149)
Prior Unsuccessful Expungement		0.026		0.227		0.340
		(0.498)		(0.975)		(1.352)
Female		-0.013		-0.021		-0.021
		(-0.565)		(-0.879)		(-0.867)
Non-White		0.005		0.008		0.006
		(0.124)		(0.205)		(0.160)
Experience / 10		-0.074***		-0.074***		-0.073***
		(-7.506)		(-7.383)		(-7.385)
Total Qualifications		-0.008		-0.008		-0.008
		(-0.779)		(-0.711)		(-0.716)
Case Characteristics						
Settlement		-0.034		-0.043*		-0.048**
		(-1.550)		(-1.803)		(-1.997)
Broker Contributes to Settlement		0.023		0.035		0.042
		(0.499)		(0.729)		(0.865)
Opposed		0.016		0.028		0.041
		(0.731)		(0.997)		(1.393)
Form U5		-0.005		0.015		0.007
		(-0.089)		(0.253)		(0.127)
Wrongful Termination		-0.229***		-0.229***		-0.222***
		(-3.226)		(-3.155)		(-3.108)
Unfair Practices		0.104***		0.091**		0.088**
		(2.634)		(2.165)		(2.079)
Customer Initiated		-0.094***		-0.092***		-0.094***
		(-3.147)		(-3.059)		(-3.121)
Firm Characteristics						
Taping and/or Disciplined Firm		0.311***		0.314***		0.310***
		(3.847)		(3.663)		(3.508)
Num. Brokers		-0.000***		-0.000***		-0.000***
		(-5.168)		(-5.111)		(-5.217)
Total Expungements per Year		-0.001**		-0.001**		-0.001**
		(-2.048)		(-1.995)		(-1.972)
Arbitrator Characteristics						
Female		-0.002		-0.004		-0.003
		(-0.167)		(-0.288)		(-0.228)
Year X Region FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4,449	4,322	4,341	4,215	4,393	4,266
Adj. R-Square	0.124	0.209				

Table 8. Panel B. This table shows the effect of a successful expungement on career outcomes. The dependent variable is a dummy variable for whether the broker was hired as a registered broker by another firm after the expungement. Only brokers who applied for expungement during our sample period are included. The first two columns reflect the OLS results, and the final four columns reflect 2SLS results. All models include region-year fixed effects. Standard errors are double clustered by arbitrator and broker. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	OLS		2SLS			
	(1)	(2)	(3)	(4)	(5)	(6)
Successful Expungement	0.002	0.008	0.034	0.357	0.041	0.422*
(Predicted value for 2SLS)	(0.109)	(0.184)	(1.011)	(1.511)	(1.197)	(1.696)
Broker Characteristics						
Prior Successful Expungement		0.119***		0.053		0.040
		(3.290)		(0.887)		(0.642)
Prior Unsuccessful Expungement		0.014		0.305		0.358*
		(0.316)		(1.523)		(1.703)
Female		-0.006		-0.015		-0.014
		(-0.285)		(-0.687)		(-0.634)
Non-White		0.037		0.038		0.037
		(1.073)		(1.056)		(1.039)
Experience / 10		-0.028***		-0.027***		-0.026***
		(-3.386)		(-3.127)		(-3.071)
Total Qualifications		0.014		0.015		0.015
		(1.456)		(1.471)		(1.491)
Case Characteristics						
Settlement		-0.038**		-0.049**		-0.052**
		(-1.971)		(-2.333)		(-2.494)
Broker Contributes to Settlement		0.044		0.057		0.060
		(0.968)		(1.229)		(1.311)
Opposed		-0.006		0.017		0.024
		(-0.319)		(0.657)		(0.890)
Form U5		0.021		0.040		0.034
		(0.376)		(0.701)		(0.609)
Wrongful Termination		-0.162**		-0.154**		-0.152**
		(-2.256)		(-2.055)		(-2.052)
Unfair Practices		0.104***		0.081**		0.083**
		(2.750)		(2.002)		(2.048)
Customer Initiated		-0.080***		-0.081***		-0.083***
		(-3.560)		(-3.493)		(-3.581)
Firm Characteristics						
Taping and/or Disciplined Firm		0.040		0.035		0.032
		(0.368)		(0.316)		(0.291)
Num. Brokers		-0.000***		-0.000***		-0.000***
		(-3.578)		(-3.732)		(-3.806)
Total Expungements per Year		-0.001**		-0.001**		-0.001**
		(-2.539)		(-2.393)		(-2.400)
Arbitrator Characteristics						
Female		0.001		-0.000		0.001
		(0.116)		(-0.035)		(0.071)
Year X Region FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,705	4,832	5,574	4,719	5,637	4,774
Adj. R-Square	0.105	0.163				

Table 9. Panel A. This table presents the reduced form regression of future recidivism on the relative leniency of the arbitrator panel (i.e., the instrumental variable). The dependent variable is a dummy variable for whether the broker received any misconduct after the expungement. Only brokers who applied for expungement during our sample period are included. All models include region-year fixed effects. Standard errors are double clustered by arbitrator and broker. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

Panel A.

	(1)	(2)	(3)	(4)
Relative Leniency of Arbitrator Panel	0.013	0.047***		
	(0.675)	(2.582)		
Relative Leniency of Arbitrator Panel, Adj.			0.013	0.039**
			(0.666)	(2.063)
Broker Characteristics				
Prior Successful Expungement		0.901***		0.899***
		(73.192)		(72.494)
Prior Unsuccessful Expungement		0.095***		0.091***
		(6.507)		(6.341)
Female		-0.015		-0.015
		(-1.279)		(-1.285)
Non-White		0.012		0.012
		(0.557)		(0.568)
Experience / 10		0.003		0.004
		(0.733)		(0.982)
Total Qualifications		0.018***		0.019***
		(3.329)		(3.424)
Case Characteristics				
Settlement		0.029***		0.029***
		(2.721)		(2.737)
Broker Contributes to Settlement		-0.027		-0.027
		(-1.078)		(-1.084)
Opposed		-0.014		-0.015
		(-1.380)		(-1.440)
Form U5		-0.006		-0.006
		(-0.291)		(-0.263)
Wrongful Termination		-0.043		-0.043
		(-1.013)		(-1.062)
Unfair Practices		-0.015		-0.015
		(-0.819)		(-0.817)
Customer Initiated		0.005		0.003
		(0.437)		(0.315)
Firm Characteristics				
Taping and/or Disciplined Firm		0.176		0.177
		(1.589)		(1.604)
Num. Brokers		-0.000*		-0.000*
		(-1.957)		(-1.847)
Total Expungements per Year		0.000		0.000
		(1.205)		(1.156)
Arbitrator Characteristics				
Female		0.009		0.010
		(1.510)		(1.637)
Year X Region FE	Yes	Yes	Yes	Yes
Observations	5,405	4,675	5,468	4,730
Adj. R-Square	0.024	0.524	0.025	0.521

Table 9. Panel B. This table presents the reduced form regression of future recidivism on the relative leniency of the arbitrator panel (i.e., the instrumental variable). The dependent variable is the total number of misconducts received by the broker after the expungement. Only brokers who applied for expungement during our sample period are included. All models include region-year fixed effects. Standard errors are double clustered by arbitrator and broker. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	(1)	(2)	(3)	(4)
Relative Leniency of Arbitrator Panel	0.086*	0.144***		
	(1.746)	(3.239)		
Relative Leniency of Arbitrator Panel, Adj.			0.090*	0.136***
			(1.805)	(3.018)
Broker Characteristics				
Prior Successful Expungement		1.808***		1.803***
		(10.016)		(10.014)
Prior Unsuccessful Expungement		0.170***		0.163***
		(3.586)		(3.502)
Female		-0.006		-0.006
		(-0.144)		(-0.132)
Non-White		-0.037		-0.037
		(-0.720)		(-0.720)
Experience / 10		0.002		0.003
		(0.102)		(0.205)
Total Qualifications		0.012		0.012
		(0.949)		(0.977)
Case Characteristics				
Settlement		0.027		0.026
		(1.392)		(1.362)
Broker Contributes to Settlement		-0.132***		-0.131***
		(-2.712)		(-2.750)
Opposed		-0.030		-0.031
		(-1.058)		(-1.092)
Form U5		-0.065		-0.063
		(-1.373)		(-1.369)
Wrongful Termination		-0.127		-0.125
		(-1.458)		(-1.499)
Unfair Practices		-0.165***		-0.165***
		(-3.500)		(-3.516)
Customer Initiated		-0.192***		-0.192***
		(-3.255)		(-3.285)
Firm Characteristics				
Taping and/or Disciplined Firm		0.285		0.289
		(1.086)		(1.103)
Num. Brokers		-0.000		-0.000
		(-1.449)		(-1.388)
Total Expungements per Year		0.000		0.000
		(0.073)		(0.030)
Arbitrator Characteristics				
Female		-0.002		-0.001
		(-0.127)		(-0.061)
Year X Region FE	Yes	Yes	Yes	Yes
Observations	5,405	4,675	5,468	4,730
Adj. R-Square	0.086	0.457	0.087	0.456

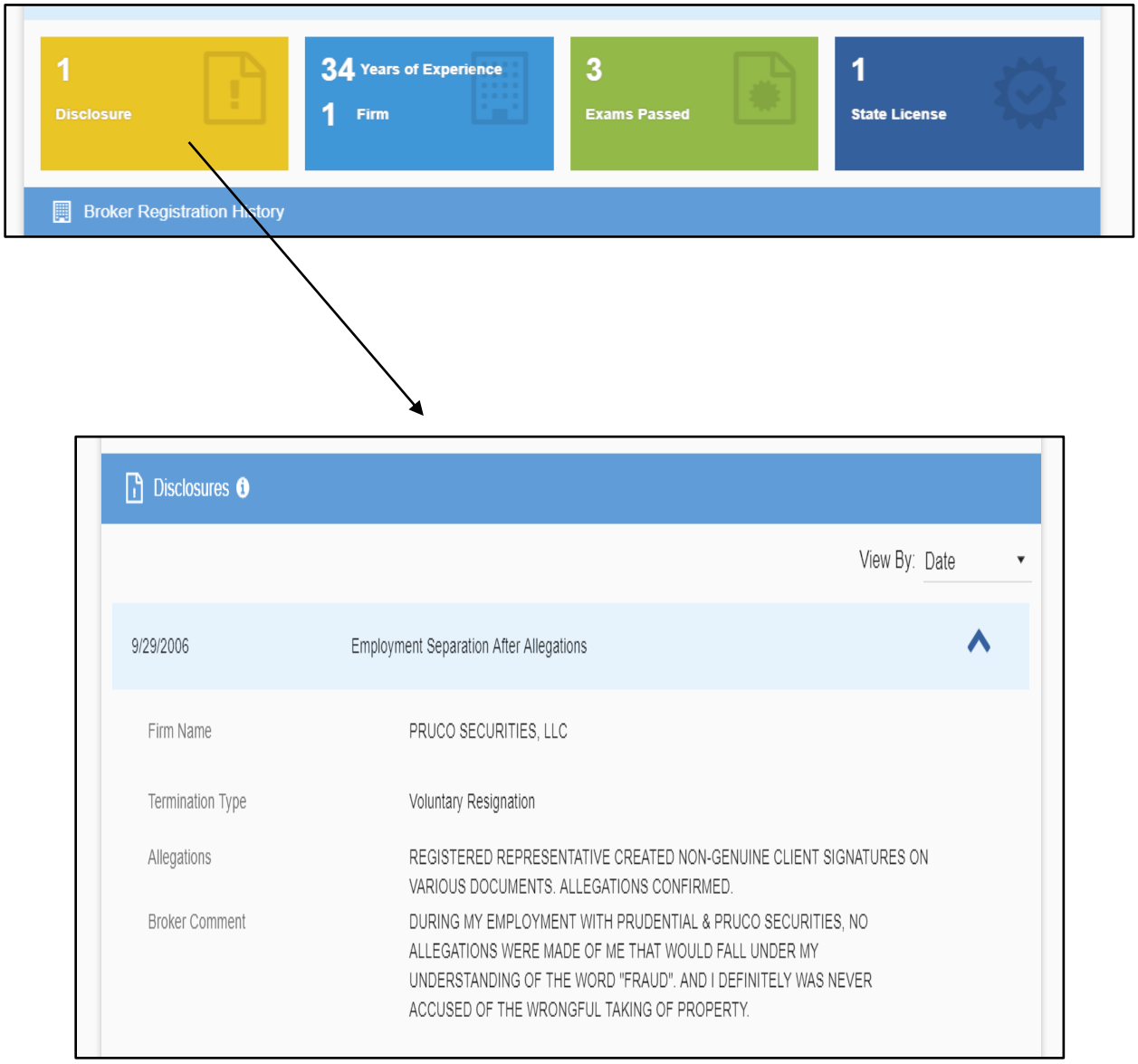
Table 10. Panel A. This table presents the reduced form regression of career outcomes on the relative leniency of the arbitrator panel (i.e., the instrumental variable). The dependent variable is a dummy variable for whether the broker separated from her employer. Only brokers who applied for expungement during our sample period, and were employed as registered brokers at the time of the expungement award, are included. All models include region-year fixed effects. Standard errors are double clustered by arbitrator and broker. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	(1)	(2)	(3)	(4)
Relative Leniency of Arbitrator Panel	-0.055*	0.025		
	(-1.718)	(0.742)		
Relative Leniency of Arbitrator Panel, Adj.			-0.049	0.040
			(-1.472)	(1.166)
Broker Characteristics				
Prior Successful Expungement		0.081**		0.081**
		(2.009)		(2.012)
Prior Unsuccessful Expungement		0.063**		0.064***
		(2.548)		(2.622)
Female		-0.019		-0.017
		(-0.780)		(-0.699)
Non-White		0.009		0.009
		(0.252)		(0.232)
Experience / 10		-0.074***		-0.074***
		(-7.422)		(-7.449)
Total Qualifications		-0.008		-0.007
		(-0.696)		(-0.677)
Case Characteristics				
Settlement		-0.035		-0.035
		(-1.635)		(-1.637)
Broker Contributes to Settlement		0.025		0.025
		(0.534)		(0.536)
Opposed		0.014		0.018
		(0.687)		(0.860)
Form U5		0.008		-0.005
		(0.134)		(-0.082)
Wrongful Termination		-0.235***		-0.233***
		(-3.241)		(-3.253)
Unfair Practices		0.102***		0.106***
		(2.586)		(2.699)
Customer Initiated		-0.091***		-0.092***
		(-3.050)		(-3.122)
Firm Characteristics				
Taping and/or Disciplined Firm		0.320***		0.322***
		(3.880)		(3.887)
Num. Brokers		-0.000***		-0.000***
		(-5.097)		(-5.183)
Total Expungements per Year		-0.001**		-0.001**
		(-2.031)		(-2.044)
Arbitrator Characteristics				
Female		-0.004		-0.003
		(-0.290)		(-0.240)
Year X Region FE	Yes	Yes	Yes	Yes
Observations	4,341	4,215	4,393	4,266
Adj. R-Square	0.115	0.206	0.116	0.208

Table 10. Panel B. This table presents the reduced form regression of career outcomes on the relative leniency of the arbitrator panel (i.e., the instrumental variable). The dependent variable is whether the broker was hired as a registered broker by another firm. Only brokers who applied for expungement during our sample period are included. All models include region-year fixed effects. Standard errors are double clustered by arbitrator and broker. Statistical significance of 10%, 5%, and 1% is represented by *, **, and ***, respectively.

	(1)	(2)	(3)	(4)
Relative Leniency of Arbitrator Panel	0.025	0.046		
	(1.011)	(1.527)		
Relative Leniency of Arbitrator Panel, Adj.			0.031	0.054*
			(1.197)	(1.725)
Broker Characteristics				
Prior Successful Expungement		0.124***		0.122***
		(3.406)		(3.393)
Prior Unsuccessful Expungement		0.018		0.019
		(0.808)		(0.837)
Female		-0.010		-0.007
		(-0.437)		(-0.342)
Non-White		0.039		0.039
		(1.127)		(1.118)
Experience / 10		-0.028***		-0.027***
		(-3.324)		(-3.281)
Total Qualifications		0.015		0.015
		(1.467)		(1.514)
Case Characteristics				
Settlement		-0.037*		-0.038**
		(-1.906)		(-1.983)
Broker Contributes to Settlement		0.043		0.044
		(0.927)		(0.969)
Opposed		-0.009		-0.006
		(-0.438)		(-0.321)
Form U5		0.027		0.020
		(0.495)		(0.357)
Wrongful Termination		-0.166**		-0.166**
		(-2.264)		(-2.297)
Unfair Practices		0.104***		0.109***
		(2.743)		(2.898)
Customer Initiated		-0.077***		-0.078***
		(-3.396)		(-3.504)
Firm Characteristics				
Taping and/or Disciplined Firm		0.046		0.047
		(0.409)		(0.415)
Num. Brokers		-0.000***		-0.000***
		(-3.538)		(-3.575)
Total Expungements per Year		-0.001**		-0.001**
		(-2.519)		(-2.564)
Arbitrator Characteristics				
Female		-0.001		0.000
		(-0.070)		(0.021)
Year X Region FE	Yes	Yes	Yes	Yes
Observations	5,574	4,719	5,637	4,774
Adj. R-Square	0.098	0.157	0.101	0.160

Appendix I – BrokerCheck Disciplinary History. FINRA's BrokerCheck website displays both the total number of disclosures for each broker and detail on each specific disclosure. Below we present an example of a broker with disclosure in the "Employment Separation After Allegations" category.



Appendix II – Disclosure Type and Resolution Categories. This table presents the complete set of BrokerCheck Disclosure Categories. The "Misconduct" categories are highlighted in grey.

	Full BrokerCheck Sample	
	Number	Percent
Civil - Final	800	0.4%
Civil - On Appeal	12	0.0%
Civil - Pending	340	0.2%
Civil - Bond	137	0.1%
Criminal - Final Disposition	5,359	2.5%
Criminal - On Appeal	21	0.0%
Criminal - Pending Charge	721	0.3%
Customer Dispute - Award / Judgment	1,921	0.9%
Customer Dispute - Closed-No Action	5,581	2.6%
Customer Dispute - Denied	25,039	11.8%
Customer Dispute - Dismissed	128	0.1%
Customer Dispute - Final	208	0.1%
Customer Dispute - Pending	3,920	1.8%
Customer Dispute - Settled	35,350	16.6%
Customer Dispute - Withdrawn	1,347	0.6%
Employment Separation After Allegations	15,789	7.4%
Financial - Final	60,984	28.7%
Financial - Pending	4,167	2.0%
Investigation	468	0.2%
Judgment / Lien	32,530	15.3%
Regulatory - Final	17,565	8.3%
Regulatory - On Appeal	69	0.0%
Regulatory - Pending	233	0.1%
Total Misconduct Infractions	76,784	36.1%
Total Infractions	212,689	

Appendix III – Data Pulled from Arbitration Awards. Below we summarize the information we retrieved from the expungement arbitration awards.

Scraped Variables

- FINRA_Ref
  This the number FINRA has assigned to each award. The award number does not uniquely identify a case—that is, multiple award numbers may refer to one arbitration case. Thus, duplicates were removed during the hand-collection.
- Rule
  This refers to the rule under which expungement was granted. Only cases pertaining to customer disputes will list a rule; a broker-firm dispute regarding a Form-U5 issue will not cite a rule.
- Erroneous
  Dummy variable where "1" indicates expungement was granted under Rule 2080's "[t]he claim, allegation, or information is factually impossible or clearly erroneous" standard (it includes variations such as simply "the claims are erroneous").
  This variable was checked by hand after scraping.
- False
  Dummy variable where "1" indicates expungement was granted under Rule 2080's **"**[t]he claim, allegation, or information is false" standard.
- Involved
  Dummy variable where "1" indicates expungement was granted under Rule 2080's **"**[t]he registered person was not involved in the alleged investment-related sales practice violation, forgery, theft, misappropriation, or conversion of funds" standard.
  This variable was checked by hand after scraping.
- Success
  Dummy variable for whether or not an expungement was successful, where "1'" indicates success.
- Panel
  Dummy variable for whether a case was heard by a panel of three arbitrators or a single arbitrator, where "1" indicates that it was heard by a panel.
- Award Date
  This corresponds to the "Date of Award" column from the Arbitration Awards Online section of FINRA's website.
- Hearing Site
  This corresponds to where the arbitrator was held and can be found on the first page of the award.
- Settlement
  Dummy variable where "1" indicates that the complaint was settled.
- Form U5
  Dummy variable where "1" indicates that the award contained the phrase "Form U5".

Hand Collected Variables

- Claim Date
  Date that the claim was filed according to the FINRA award. This can be found in the "Case Information" section and is preceded by the phrase "Statement of Claim filed".

- Unopposed

  Dummy variable set to "1" if the request for expungement was unopposed by the customer. If a customer was present or arguments were heard it was marked as opposed. To determine unopposed, we made use of phrases in the award such as "unopposed expungement", "opted not to participate in the expungement hearing", or similar phrases that indicated the customer was not involved or was not raising objections to expungement.
- CRD

  This corresponds to the CRD number for each broker in an award. In rare instances, multiple brokers requested expungement and the arbitrator reached a split decision. In such instances, we separately record the CRD number for each type of expungement outcome.
- Firm CRD

  This corresponds to the firm CRD for each broker in an award. When multiple firms were listed for a single broker, the firm where the broker was most recently employed prior to the award was included.
- Settlement/Damages

  This variable reflects the dollar value of settlement or damages mentioned in an award. This amount is frequently not disclosed, in which case we leave the observation blank.
- Complaint Initiation

  This variable indicates who filed the complaint that gave rise to the FINRA award. The complaint could have been filed by a customer, broker, or firm.

  Customer initiated – Customer initiated awards are those where a customer filed the complaint and was listed as the claimant on the FINRA award.

  Broker initiated – These are awards in which a broker filed the complaint and is listed as the claimant on the FINRA award. The broker can file a complaint against a customer to expunge an award from their record. Additionally, a broker can be named a claimant when they bring a complaint against a firm over either employment disputes, expungement of a customer complaint, or expungement of their industry employment record (i.e., U5).

  Firm initiated – Occasionally, firms will file complaints against either brokers or customers and are named the claimant in a given award. Firms will bring complaints against a customer to seek expungement either for themselves or for their brokers. An award brought against a broker usually involves a business dispute.
- Intra Industry

  This is a dummy variable set to 1 if the dispute concerned only FINRA registered firms and their employees. In intra-industry complaints, there are two kinds of cases: those brought by firms against brokers and those brought by brokers against their firms. Broadly, these two kinds of complaints are (1) employment-related such as wrongful termination and 2) U4/U5 related, as brokers may bring cases against their former firms to have their U5 and U4 cleansed (these are FINRA-required forms that contain a record of complaints against the broker).
- Who Pays

  Variable to indicate whether the firm, broker, or both paid any damages/settlement noted in the award.
- Infraction Date

  This is the earliest date of wrongdoing mentioned in an award. Most of the analysis using this variable was collapsed to an infraction year due to inconsistent reporting of the date of the actual offense from case to case.
- Unsuitable

  The award states in its cause of action that a given investment or investment advice was unsuitable.

- Misrepresentation
  The award states in its cause of action that a broker misrepresented critical information.
- Unauthorized
  The award states in its cause of action that a broker initiated unauthorized trades or transactions.
- Omission
  The award states in its cause of action that a broker omitted critical information.
- Fee/Commissions
  The award states in its cause of action a reference to fees/commissions.
- Fraud
  The award states in its cause of action "fraud".
- Fiduciary duty
  The award states in its cause of action a breach of fiduciary duty or simply "duty".
- Negligence
  The award states in its cause of action negligence. Some awards claimed "negligent misrepresentations" as a cause of action. This would be recorded as a "1" for both "Misrepresentations" and "Negligence".
- Risky
  The award states in its cause of action that an investment-related decision was risky, over-concentrated, or illiquid.
- Churning/Excessive Trading
  The award states either "churning" or "excessive trading" in its cause of action
- Other
  The award states something other than the prior ten categories as a cause of action.
- Slander Libel Defamation
  This is where the award explicitly mentions slander, libel, or defamation as a cause of action in an intra-industry complaint. This is typically regarding information published by a firm regarding the broker's record.
- Interference
  This is a claim that the other party—either firm or broker(s)—interfered with the broker's business in an intra-industry complaint (e.g., contacted a broker's customers or took a client list).
- Unfair Practices
  This is like the interference claim and usually involves unfair competition as part of an intra-industry complaint (e.g., a broker claims that the firm terminated his franchise agreement and forced him to sell his practice below fair value).
- Wrongful Termination
  Dummy variable for whether wrongful termination was explicitly mentioned as a cause of action in the award in an intra-industry complaint.
- Other Employment Related
  Dummy variable for whether the cause of action in an intra-industry complaint did not fit the prior four categories.
- Truly Erroneous
  Dummy variable for whether a case expunged under the "erroneous" standard would be interpreted by the lay person as erroneous (e.g., broker was not employed at the relevant firm at the time of the offense, broker was misnamed in the case filing, or broker had no contact with client).

Appendix IV – Allegations in Expungement Awards. This table shows the allegations in the expungement awards, broken down by the party that made the initial complaint. Many awards involve multiple allegations, so the percentages sum to more than 100.

	All Expungements		Customer-Initiated Complaints		Broker-Initiated Complaints		Firm-Initiated Complaints	
	Total	Percent	Total	Percent	Total	Percent	Total	Percent
Unsuitable	2,315	35%	2,309	48%	5	0%	1	0%
Misrepresentation	2,682	41%	2,618	55%	60	4%	4	2%
Unauthorized	632	10%	629	13%	3	0%	0	0%
Omission	1,369	21%	1,346	28%	23	2%	0	0%
Fee/Commission	152	2%	148	3%	2	0%	2	1%
Fraud	2,507	38%	2,390	50%	105	7%	12	5%
Fiduciary Duty	3,945	60%	3,873	81%	43	3%	29	13%
Negligence	3,726	57%	3,604	75%	118	8%	4	2%
Risky	346	5%	346	7%	0	0%	0	0%
Churning/Excessive Trading	403	6%	401	8%	2	0%	0	0%
Other	4,411	67%	4,368	91%	34	2%	9	4%
Slander/Libel/Defamation	463	7%	1	0%	452	30%	10	4%
Interference	276	4%	2	0%	232	15%	42	19%
Unfair Practices	122	2%	1	0%	79	5%	42	19%
Wrongful Termination	221	3%	0	0%	220	15%	1	0%
Other Employment Related	1,536	24%	0	0%	1,323	87%	213	94%
Total Awards	6,536		4,790		1,516		226	