

TIME OUT

JANUARY 2005

One of the more popular punishment exercises used by parents and teachers on misbehaving children is the **“Time Out.”** I don’t know whether or not it works, however Wall Street regulators now seem to fancy it. Regulators are now using the **“Time Out”** tactic on bad boy brokerage firms. Regulators are finally starting to realize that the fines they impose do little to nothing in getting firms to change their bad behavior (we told you so). The NASD is now instituting a plan to temporarily shut down certain business areas, in other words, a **“Time Out”**.

This past month the NASD issued a **“Time Out”** to Merrill Lynch and Wachovia Securities from registering brokers for five business days on top of fining the firms \$1.6 million for Merrill and \$650,000 for Wachovia. The bad boys failed to report to NASD information regarding customer complaints, regulatory actions, criminal charges, and convictions regarding their brokers. Twenty-seven other firms were charged with the exact same offense yet, Merrill and Wachovia faced the Time Out because of the incredible number of violations. We reported in July that Morgan Stanley was paid a \$2.2 million fine for doing the same thing 1,800 times. (Think about this for a second...1,800 instances of bad behavior reported late, coupled with bad behavior reported on time, it would be safe to say that there is a lot of naughtiness going on at these firms.)

The NASD imposed a five-day suspension for registering new brokers, stating that the **“severity”** of the punishment was related to the number of late filings and the fact that the tardiness impaired its ability to conduct other investigations. Wachovia, Merrill and Morgan all agreed to the sanctions while neither admitting nor denying the allegations (what else is new). I am curious to whether that five-day suspension included weekends? If it doesn’t then we are talking not severity any longer, but torture (please note my intense sarcasms). We might have to call Amnesty International and the United Nations to investigate.

The idea that a five-day suspension of registering new brokers is a **“severe”** form of punishment should insult everyone’s intelligence. This is pathetic and sad at best. I have been very critical of all the Mafia-like shakedowns that have become very popular with individuals with strong political aspirations like Eliot Spitzer. Brokerage firms simply consider these fines or shakedowns a simple cost of doing business.

Susan Merrill the Executive Vice President of Enforcement at the New York stock Exchange stated in the Wall Street Journal,

“Firms are very willing to pay money, but what we want is for people to change behavior. If we see a firm back in front of us again and again, the money is not making a dent and it’s possible that firms are just factoring it into their business model. Suspending a line of business may send a stronger message than an eight figure fine.”

I agree with Susan Merrill that fines have done absolutely nothing, but a five-day suspension in registering new brokers? What is this the NBA? The investment firms are laughing at this. If you want to stop the shenanigans, regulators need to hold individuals responsible, not the company as a whole. I don’t want to sound too **“severe”** but, start revoking individual’s securities licenses, fine the individuals, and put some crooks in jail, only when you hold people responsible for their bad behavior will things improve.