

# SECURITIES WEEK

time the reduction in the use of physical certificates, but also acknowledges that the "ability to hold securities certificates to evidence ownership in a corporation has a long tradition."

"There is significant risk, inefficiency and cost related to the use of securities certificates," the SEC said in the concept release. "The possibility exists that investors' attachment to the certificate may be based more on sentiment than real need. Today, non-negotiable records of ownership (e.g., account statements) evidence ownership of not only most securities issued in the U.S. but also other financial assets, such as money in bank accounts."

A number of companies have embraced the direct registration systems—such as AT&T—and Kittell noted that changing demographics of investors may make it easier for dematerialization, but doubted that dematerialization would occur simply through evolution of the marketplace.

"There is some point in time this will happen, but it can only happen with an SEC mandate," Kittell said.

Kittell also said he liked the flexibility the SEC showed in the way it addressed several issues, including the use of matching services for confirmation/affirmation.

"The commission preliminarily is of the view that the goal of industry-wide trade matching is the best method to improve the confirmation/affirmation process and to achieve STP. Nevertheless, the imposition of a requirement that all broker-dealers and their institutional customers use a matching service raises some significant issues," the SEC said in the release. "While matching is the leading technology today, future developments may provide greater efficiency and improved service. Mandating that the industry use matching may make it virtually impossible for a service provider with a new technology to compete."

The SEC is looking for comment on a couple of approaches in this area. Kittell said matching on trade date is a key, but "it's the end result, it's not how you get there. We're certainly not interested in giving Omgeo a monopoly."

Kittell said he would be most interested in the buy-side responses to the SEC's questions.

"We are so far ahead in automating street-side processes and so far behind in automating customer-side processes," Kittell said. "The questions asked are of those customer groups."—*JB*

## PRU/WACHOVIA LETS GO OF SIX, INCLUDING TWO BRANCH MANAGERS

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on why any of these employees left the firm, or where they are now.

One industry observer said the Crair is possibly taking the fall in a continued reaction to mutual fund market timing issues.

Last October several brokers were let go out of a New York office; Crair was the branch manager "of the group that got burned," the observer said. But the observer was careful to point out that he did not believe Crair was guilty. "I think Nathan is the fall guy," he said.

As for Samuels, the industry observer was surprised he had been let go as he had enjoyed something of a reputation in the firm as a "fair-haired boy."

The spokesman declined comment on possible reasons for why any of the employees are no longer working with the firm, or where they may be.

One Wachovia broker said these firings were possibly the result of continued political heat in New York against the firm for market timing related violations, which, the broker added, were tolerated by Prudential in the past before the regulatory crackdown.

"I am not surprised," the broker said. "It (market timing) is a lot bigger than anybody thought. They were doing things the company allowed them to do. Once the heat gets on...they (management) step back, deny what's going on and fire people. There's no question it went all the way to the top within Pru. There's probably a little bit more left. (But I) think they probably got the biggest percentage."

Capin started work last week at the Scranton branch of Morgan Stanley, where he is senior vp, he said. When asked why he moved he declined comment.

Capin is also named in a suit against Pru/Wachovia by former broker Robert Ostrowski, who is engaged in a \$30 million suit against the firm for wrongful termination and the unlawful seizure of nearly \$1.8 million in deferred compensation funds.

Capin said he was the 40<sup>th</sup> ranked broker at Wachovia prior to his departure, and said his leaving was not compliance related.

A former Pru employee said Samuels enjoyed a reputation as a quality manager, and said that it's likely some of the brokers under his supervision were also involved in market timing. "It's got to be unfortunate if you're a good manager, and look what happens," the employee said. "Maybe all that stuff was sort of legal when he was OK'ing the tickets. It's so easy to get knocked off. It shows you one thing: Wachovia's not screwing around."—*DS*

## ALONE AMONG WIREHOUSES WACHOVIA RECRUITS THROUGH ITS CLEARING DIVISION

As recruiting successful financial advisers has gained more importance for broker-dealers over the past several years Wachovia Securities has taken the unique step of empowering its clearing division, First Clearing, to act as a direct recruiter for the 170 or so independent firms that clear through it.

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The move has been greeted as a bold, smart one by some industry observers while others have questioned whether this removes the traditional arms-length distance between clearing firms and broker-dealers, while still others question the quality of recruit such an enterprise would generate.

David Williams, managing director of First Clearing's Correspondent Client Group, said that independent firms typically are too small to have a dedicated recruiting staff.

"We asked firms what their biggest concerns are, and in retail it's to recruit brokers," he said. "Small firms typically can't have a dedicated recruiting effort...if you don't have a department or individual doing that what better, more natural way than to have us do it for you?"

Williams said First Clearing would benefit from this recruiting by way of increased business and loyalty from the firms it recruits for. "If our introducing firms are successful...they will do more business through the First Clearing Corp. It will bind our introducing firms to us. They will want to do business with us for a long, long period of time."

Williams said First Clearing is in the final stages in deciding how it would get compensated. "There will be a finder's fee, which from a competitor's standpoint will be less than an outside recruiting firm," he said.

"Firms will pay a fee to First Clearing for any qualified broker they end up hiring."

John Peluso, president of Wachovia's FiNet division of independent brokers, will manage the First Clearing recruiting effort.

Another recruiter following the issue said he had heard First Clearing would offer up to \$100,000 upfront to recruits, maximum.

"They have to give it to Wachovia's screening committee to review it, and they will approve the money if they think it's appropriate...and it has to be repaid to Wachovia (by the recruited-for firm)."

First Clearing would operate independent of Wachovia's own in-house recruiting team, Williams said. He added that First Clearing—the fourth largest clearing operation in the securities world—offers support and services to its client firms that make it unique.

He added First Clearing would only recruit for firms that use its clearing service.

"We give every product and service that our own internal Wachovia securities brokers have to them," he said. "From full access to our fee-based type products, cash management products, alternative investment research, and financial planning."

First Clearing would also offer support in addition to recruiting, Williams said, including advertising and recruitment training.

Williams said the program is officially set to launch in early April, and said the program was the brainchild of David

Monday, the president of the Independent Brokerage Group; the program will also report to Monday.

Williams said he is not sure how many recruiters work for First Clearing yet, and the program has not recruited anyone officially yet.

A second recruiter said he believes this program is a good idea. "Wachovia says they give you clearing, and, then it sounds to me, at that point they say, we can also give you recruiting," he said.

"So if we recruit people...they'll be charged a fee. I think it's a great concept."

But some think this First Clearing's recruiting violates the traditional remove that clearing corporations have had from their correspondent firms.

Jenice Malecki, a securities lawyer in New York, said this arrangement allows First Clearing to ultimately make money through the clearing business of the brokers it introduces to the independent B-D's without much more in the way of accountability.

"I'm not sure it's unethical in the strict sense of it," she said. "I think the question is whether or not they are or aren't responsible for what goes on in those customer's accounts. And if they're helping with recruiting does that in any way alter the arm's-length nature...between the introducing broker's clients and themselves, the clearing firm?"

Malecki also expressed skepticism that should a truly prized recruit come along that First Clearing would actually pass it along to client firms instead of Wachovia.

"Wouldn't firms save the best candidates for themselves?" she asked. "They're competing for the same dollar, really."

Williams answered, regarding the arm's-length argument, that the firms that sign up with First Clearing for recruiting, "would prefer to have a partnership arrangement with us than (be at) arm's length...that's why they join us, why they clear through us."

As for the best candidates being kept in-house, Williams said that for First Clearing "it really doesn't matter where the recruit resides...I wouldn't look at it as what's best for Wachovia, but what's best for the recruit residing in one of our channels."

A third recruiter following the issue said he thinks First Clearing will have a hard time recruiting quality brokers for these independent firms.

Especially because switching clearing firms is stressful on the broker and the customer alike. He also said that it could be extremely difficult getting a broker to switch from a name firm to an independent.

"The only way a brokers goes independent is if their numbers are so low they are about to get fired," he said. "Or if they are large enough to take their client with them...Small firms take the dregs of society...They will be recruiting infinitely smaller fry or people about to be fired."—DS