



## B-Ds Play Dangerous Game Making Regs 'Next Year's Problem'

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**B**roker dealers are scrambling to deal with new cost basis reporting regulations, as clearing emerges as a major definer of who is best able to handle the new requirements—and who may slip through the cracks on major new rules and be smacked with hefty fines in the process.

The new cost basis reporting rules under the Emergency Economic Stability Act of 2008 was signed into law in October of 2008 by former President Bush and goes into effect for equities dealers on Jan 1, 2011.

“Broker dealers fall into two categories: Ones that self-clear and ones that do not. Those that do not see this as ‘somebody else’s problem,’ despite the fact that they are the ones that will be fined,” George D. Michaels II, principal and founder of G2 Systems, a boutique software and consulting firm, told Markets Media.

Prior to founding G2, Michaels was chief technology officer at Carlson Capital and was vice president responsible for energy risk management at Goldman Sachs.

Michaels said that the clearing houses and firms that do self-clear are “worried” but find themselves unable to make quick decisions. This hesitation could wind up costing broker dealers more than fines, as risk management remains a major topic after the credit crisis and firms move closer to the Jan. 1, 2011 deadline with no real plan in place.

“Request for proposals are floating out there and committees are being formed but very little action has been taken,” said Michaels. “This is strictly a back office problem and the back office always has emergencies on its plate for today and simply cannot make time for

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That sort of thinking is dangerous precisely because it shows the sort of hubris and short-term thinking that lead to the credit crisis in the first place, as Wall Street shrugs off a raft of new regulations and then scrambles wildly at the last moment to meet new requirements.

Thus far, Michaels says the only firm he’s seen taking significant steps to put a plan of action into effect is perennial leader of the pack, Goldman Sachs.

“I can say in general that Goldman typically shows more foresight than its competition and is likely to be one of the first to market with a solution for any problem,” said Michaels.

**g2**  
systems