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Mexican Government Launches Prosecution Campaign Against Brokers

by John Neagle

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On Feb. 14, the Mexican government arrested four high-level executives from two brokerage firms on charges of fraud and securities exchange violations related to the October 1987 stock market crash. The four are Eduardo Legorreta, president of Operadora de Bolsa S.A., his partner Jaime Ceballos, and Jose Rodriguez and Juan Fernandez of Mexicana de Valores S.A. All face two to 10 years of prison, and/or large fines if convicted. The two firms were accused of trading irregularities and stock manipulation. The government launched legal proceedings on Feb. 13 against several brokerage firm executives who allegedly made illegal deals during a 1987 stock market boom before the index plummeted by more than 70%. Investigators said some stock brokers sold expired Treasury bonds, used clients' funds in violation of their contracts and used investors' stock to guarantee securities without appropriate funds. More than 400,000 small investors lost money in the crash, triggering over 1,200 complaints to the National Securities Commission and 52 lawsuits. On Feb. 13, Finance Minister Pedro Aspe said that 152 employees from the nation's 25 brokerage houses were under investigation. Cesar Fontenes, a lawyer for one of the accused brokerage firms, said the government was defrauded of some \$10.5 billion through personal income tax evasion and non-payment of value added tax. He said investors were cheated out of some \$3.5 billion. Last year the Attorney General's office conducted an investigation into the alleged stock fraud. It could not file criminal charges until requested to do so by the Finance Ministry, which has jurisdiction over the stock market. (Basic data from AFP, 02/14/89; Notimex, 02/14/89, 02/15/89)

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