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Grupo Salinas' Subsidiaries to Withdraw from New York Stock Exchange

by LADB Staff
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Mexican entrepreneur Ricardo Salinas Pliego has taken steps to remove all three of his enterprises from the New York Stock Exchange (NYSE). On June 1, Salinas announced that stockholders had voted to delist his three companies, television network TV Azteca, retailing and banking unit Grupo Elektra, and wireless telephone company Grupo Iusacell, from the NYSE.

Sources for holding company Grupo Salinas said the three companies would remain on the NYSE board while arrangements are being made to compensate stockholders and comply with the delisting regulations established by the NYSE. Owners of stock in the three companies will be given the option to exchange their holdings on the NYSE for stock in the three companies on the Bolsa Mexicana de Valores (BMV).

Company says decision not tied to stock-fraud investigation

The decision to abandon the NYSE comes as Salinas is facing charges of stock fraud. In January of this year, the US Securities and Exchange Commission (SEC) filed a civil lawsuit in a US federal court charging TV Azteca, Salinas, and two other executives with defrauding investors in the US and Mexico by concealing a complex debt scheme and reaping huge profits (see SourceMex, 2005-01-19).

Company officials, however, denied that the decision to exit the US financial markets had anything to do with TV Azteca's legal problems. "[The decision] has nothing to do with the SEC investigation and the legal battle," said Luis Nino de Rivera, a spokesman for Grupo Salinas. The move would have deep repercussions for Ricardo Salinas' ability to operate in the US. The SEC legal challenge, among other things, seeks to bar Salinas from heading or serving on the board of any company that trades publicly in the US.

In mid-May, TV Azteca filed a motion in a US Federal District Court requesting that the SEC lawsuit be dismissed. The court has yet to respond to the motion, but regulators believe the Salinas group's chances of success are minimal. "Defendants in lawsuits filed by the SEC very rarely succeed in getting them dismissed at this early stage," said John Sturc, a former SEC enforcement official now in private practice at the Gibson, Dunn & Crutcher law firm in Washington, DC.

Mexican authorities also took action against Salinas on charges similar to those presented by the SEC. In late April, the Comision Nacional Bancaria y de Valores (CNBV) levied a fine of US$2.3 million against Ricardo Salinas and another high-level official for violations of Mexican securities laws. The CNBV has also asked the Procuraduría General de la Republica (PGR) to file criminal charges against Salinas for unlawful use of privileged information. Salinas not only appealed the CNBV fine, but also responded with a public campaign on TV Azteca against Finance Secretary Francisco Gil Diaz, whose ministry oversees the CNBV.
The network asked the PGR to investigate allegations that Gil Diaz had attempted to censor a series that called into question the finance secretary's role in a scandal involving the defunct savings protection fund (Fondo de Proteccion al Ahorro Bancario, FOBAPROA). The fund played a prominent role in the rescue of the Mexican banking industry shortly after the devaluation of the peso in 1994 and the ensuing economic crisis in 1995 (see SourceMex, 1995-03-15).

But FOBAPROA came under strong criticism for its inability to remain solvent, its tendency to help wealthy bankers, and its diversion of resources that could have been used for other social needs (see SourceMex, 1998-12-16 and 1999-06-09). Critics did not dispute TV Azteca's decision to run an investigative piece on Gil Diaz but questioned the timing of the series.

**Executive decries "hostile business environment" in US**

In announcing the plans to abandon the US stock market, the three affiliates of Grupo Salinas cited "excessive regulation" in the US, which they said increased costs and expenses and legal risks with questionable benefits. "We are leaving the US because the business environment is too hostile and expensive, the risks are too high, and the benefits are nonexistent," Ricardo Salinas said in a press conference in Mexico City in mid-June.

The high costs of doing business in the US include the uncertainty about the peso-dollar exchange and its impact on Mexican operations. Azteca Holdings, the financial arm of TV Azteca, is planning to replace the last of its dollar debt with peso debt and will also rely exclusively on the domestic market for financing. "These are peso-generating companies, so it makes little sense to stay in dollar debt when you have enough pesos in the market," said Nino de Rivera.

The decision to delist from the US markets forced Grupo Salinas to reassure Mexican investors that the company remains solid. Ricardo Salinas, who noted that the three companies remain on very strong financial footing, said the exit from the US markets could help boost profitability because financial uncertainties would be eliminated.

Grupo Salinas officials said TV Azteca will continue to be listed on the euro-denominated Latibex market, based in Spain. The market features an index of prominent Latin American companies, including Telmex, Endesa Chile, and Petrobras. TV Azteca is possibly facing other regulatory problems in Mexico on the broadcast end of its operations. The Mexican Congress is expected to consider reforms to the country's broadcast law, which would curb the duopoly that TV Azteca and Televisa have over the Mexican market (see SourceMex, 2005-05-25). Debate on the proposal, which would create an independent broadcast regulator, has been delayed until September. (Sources: Spanish news service EFE, The New York Times, 04/29/05; The Herald-Mexico City, 05/12/05; La Cronica de Hoy, 05/03/05, 05/25/05; El Universal, 04/29/05, 05/03/05, 05/04/05, 05/11-13/05, 05/27/05, 06/01/05, 06/02/05, 06/10/05, 06/11/05; La Jornada, 04/28/05, 04/29/05, 05/03-05/05, 05/12/05, 05/13/05, 05/17/05, 06/01/05, 06/02/05, 06/09/05, 06/14/05; El Financiero, 05/12/05, 06/11/05, 06/15/05)

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