

Network of Traders Charged in Fraud Schemes

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Thirty-eight people, including former and current employees at major Wall Street firms like Morgan Stanley and Oppenheimer, were charged yesterday with running elaborate kickback and bribery schemes in the stock loan industry.

In two separate indictments, the Securities and Exchange Commission charged the people in a series of fraudulent schemes involving false finder fees and illegal kickbacks.

"The defendants in these cases devised a host of brazen schemes to enrich themselves and others at the expense of firms engaged in securities lending transactions," said Linda C. Thomsen, who directs the S.E.C.'s enforcement division.

The traders conspired with stock-loan "finders" to skim profits on transactions, pocketing more than \$12 million from 1998 until June 2006, the S.E.C. said.

Securities firms often borrow and lend securities among themselves for a variety of reasons, including facilitating short-sale transactions. Stock-loan finders can assist these firms by finding inventories of a given security and matching borrowers and lenders in stock-loan transactions. The S.E.C. said that brokerage firms including Van der Moolen, Janney Montgomery Scott, A. G. Edwards & Sons and Nomura Securities paid bogus finder fees to companies that were controlled by the traders or by their friends and relatives.

"Acting as fronts for the traders, these companies received hefty finder fees on several thousand stock-loan transactions even though they did not provide any legitimate finding services and, in many cases, were simply shell companies that were not even involved in the stock-loan business," the S.E.C. said.

The S.E.C. said the defendants met at New York City bars and restaurants, where they would exchange cash wrapped in newspapers or concealed in envelopes.

In two criminal indictments, authorities charged five men also indicted in the S.E.C. cases with conspiracy to commit securities fraud and other related counts in a wide-ranging investigation into the multibillion-dollar securities lending industry.

In one of them, a Morgan Stanley trader steered business to a stock-loan finder for cash kickbacks and payments to a family member, according to the indictment. The other involved a trader at Janney Montgomery Scott who had paid bogus finder fees to family members, the indictment said.

<http://www.nytimes.com/2007/09/21/business/21fraud.html>