

Attorney General

Robert Abrams

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ABRAMS TO HOLD HEARINGS ON ILLEGAL BOILER ROOM SCHEMES

Attorney General Robert Abrams announced today (Sunday) that he will hold public hearings in New York City on March 4 and 5 on what he described as "the state's fastest growing investment fraud," the operation of illegal boiler rooms.

Attorney General Abrams stated:

"During the past six months, my office has closed down 6 of these illegal operations and arrested some 50 individuals. However, it is clear that the laws regarding these frauds are in urgent need of reform. Quite simply, for con artists of this kind, the risk of being caught is minimal and the risk of going to jail even more remote."

Attributing the tremendous upsurge in investment fraud to inflation and the volatile state of the economy, Mr. Abrams explained that the typical boiler room is a fly-by-night operation which uses high pressure sales tactics over the telephone to attract investments in precious and strategic metals, oil and other commodities. Typically, the commodity being offered is grossly misrepresented, and frequently worthless. Each year, unsuspecting investors across the country lose millions of dollars to unscrupulous boiler room operators.

Mr. Abrams maintained that under current law there are major obstacles in prosecuting these offenders. For example, boiler room salespersons invariably claim that they were unaware that the representations which their employers told them to make were false. On the other hand, the promoters of the boiler room claim that their sales personnel, unbeknownst to them, made unauthorized representations to customers.

In addition, Mr. Abrams said that the penalties in the current statute are not stiff enough to provide a meaningful deterrent.

To address these problems, the Attorney General has prepared a package of bills which will be presented for public comment at the hearing, including proposals to:

--Make it illegal to use more than two telephones to make unsolicited calls in the sale of securities or commodities unless the person calling is associated with a recognized trade association or exchange. Violating this law would be a felony punishable by a maximum of seven years in prison.

--Make repeated or intentional violation of the state investment fraud law a felony. It is now a misdemeanor.

--Increase the penalty for operating a scheme to defraud from a maximum of four years in prison to seven years."

--Allow the prosecution of defendants in joint trials when they were engaged in a common scheme, even if they were not indicted for the same offense.

The hearings will be held at Two World Trade Center and will convene at 10 a.m. on both March 4 and 5. Among the scheduled witnesses are former victims of boiler room operations and participants in the schemes, including undercover operatives who will be disguised to protect their identities. Officials of stock and commodity exchanges and state and federal regulators and prosecutors are also expected to testify.

Attorney General Abrams invites interested parties who wish to comment on the problem and on his legislative proposals to contact his office to arrange for an appearance. Further information may be obtained from the Attorney General's Bureau of Investor Protection and Security, Two World Trade Center, New York, New York 10047, (212) 488-7563.