

SELF-REGULATION BY THE MEXICAN STOCK EXCHANGE: A PROMISING
PATH TOWARD DEVELOPING MEXICO'S SECURITIES MARKET?

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ABSTRACT

The study ventures into a global phenomenon of modern securities markets: self-regulation by stock exchanges. The purpose is to better understand the benefits (or lack thereof) of self-regulation, as an alternative channel (to public enforcement by regulators and private rights of action) that may potentially contribute to achieving the investor protection required by the Mexican securities market to further develop and compete in today's global marketplace.

Through content analysis, the research assesses particular accounts of trading suspension sanctions imposed by the Mexican Stock Exchange against issuing companies during the past five years. Aim is set at identifying the type of misconduct governed and sanctioned, the companies targeted, the nature, and the effectiveness of the self-regulation. A series of interviews with leading players in the Mexican securities market offer a reaction to the findings and follow up on the research questions.

In overview, the study finds that self-regulation by the Mexican Stock Exchange is largely preventive and procedural, aimed at inducing governance compliance. Focus is placed on achieving an adequate formation of prices and a transparent market, rather than on detecting and punishing serious misconduct like securities fraud, insider trading, and self-dealing. Moreover, the firms targeted are usually smaller and less profitable, with low trading volumes and share prices. Nonetheless, compliance rates by issuers, after being suspended, are fairly high, and they tend to correct the wrongdoing very quickly, often resuming trade within hours. This suggests the effectiveness of the sanctions themselves, and also of the Mexican Stock Exchange's efforts of inducing compliance. It

further indicates that an enhanced legal framework of self-regulation and of disclosure may be paying off.

The study also points to challenges faced by the current self-regulatory regime, including the need for more in-depth revision and auditing, and the need to overcome the conflicts of interest derived from the Mexican Stock Exchange recently becoming a publicly held company, policing the same market that it operates and in which it trades.

With the objective of contributing to legal scholarship, this paper involves an initial effort to collect and assess data on enforcement activity for Latin America, a region with widespread support for market development but with a hostile corporate environment that could benefit from a better understanding of securities enforcement. Moreover, the research adds new dimensions to the existing literature by both focusing on an emerging region, and addressing self-regulation by stock exchanges as an alternate enforcement channel with the potential to contribute to market development.