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ISRAEL CONVICTS BANKS, 9 BANKERS FOR STOCK MARKET CRASH OF 1983

ALLYN FISHER | Feb 16, 1994 7:00PM EST

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In a watershed case in Israel's attempts to make itself a player in world

financial markets, leading banks and nine of their executives were convicted Wednesday in a 1983 stock market crash.

The four-year trial tested the accountability of Israeli banks, whose reputations were in tatters after the government had to pay more than \$7 billion to bail out ruined stock market investors. Israel has been trying to present the Tel Aviv Stock Exchange to international investors. It trades 600 companies - more than any European market except London - but its volume is about the same as an average European market at \$130 million a day.

"You bankers felt that you were a powerful force, and you knew that the country could not exist without a banking system," Judge Miriam Naor of Jerusalem District Court said, reading from the verdict.

She said the bankers knew "the whole affair would be thrown to the government, and gentlemen, that is criminal."

The stock market is again rocked by scandal, with two brokers and a leading portfolio manager under investigation for stock manipulation.

The defendants Wednesday included four key banks - Leumi, Hapoalim, Discount and Mizrahi - plus about a dozen executives, all forced out of their jobs after the crash.

The four banks, a holding company and six executives were convicted of violating a 1977 law against selling shares on false pretenses. Two of the banks and some executives were also convicted of similar charges of securities fraud.

They all face sentences of up to five years in prison and also multimillion-dollar fines.

Two accountants were acquitted Wednesday in addition to another who has since died. Other executives were acquitted of some charges because the statute of limitations ran out.

A sentencing date should be set Tuesday.

Ernst Japhet, the former bank Leumi chairman who fled to the United States in 1987 when his huge severance package created an uproar, returned to Israel last month after the government requested his extradition. He will be tried separately.

The trial was one of the most sensational and longest in Israel's history, involving some 35,000 pages of transcripts and costing the state millions of

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dollars.

The stock market crashed in October 1983, after it emerged that the banks were artificially propping up their own share prices on the Tel Aviv exchange.

Bank stocks had become so dominant that their collapse immediately lowered the overall stock index by almost 70 percent, wiping out investments and forcing the government to step in.

After a two-week market shutdown in October 1983, the government took over the banks and promised investors to redeem their stock at precrash values if they held on to them for five years.

The defendants argued they had no criminal intent and weren't violating government policy.

The trial followed years of investigations. A government commission recommended changes that helped rebuild the banking system, but it said the bankers shouldn't be tried. The state attorney general also rejected appeals

from Parliament members to try the bankers, but the Supreme Court granted the request in a 1990 decision.



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