

## **Proactive SAR Review Uncovers \$15 Million Securities Conversion Scheme**

Four federal law enforcement agencies coordinated an investigation of a long-running fraud conspiracy that netted its participants more than \$15 million in illicit proceeds. The ringleader, a retired financial executive, and a friend concocted a scheme to use nominee buyers to purchase greater quantities of initial public offering (IPOs) shares than are permitted under federal and state banking regulations. Specifically, the issuers of these IPOs were mutual financial institutions converting from depositor to public ownership. The lead federal investigator in the case credited a SAR identified by a SAR Review Team and filed by one of these institutions with precipitating the investigation.

The lead defendant admitted that he implemented a scheme to open accounts at mutual financial institutions across the country with the knowledge that some of these institutions would eventually make IPOs. Several dozen institutions did so during the more than 11 years that the conspiracy continued. Federal and state banking regulations require that when a mutual bank makes an IPO it must apportion shares offered first to depositors, restrict the maximum number of shares offered to each depositor, and prevent depositors from transferring their shares to other depositors. In many instances, mutual financial institutions also require that depositors be residents of the state in which the institution is located.

The lead defendant circumvented IPO-related regulations by employing relatives, close friends, and apparently even bank employees, to open accounts at mutual banks. The co-conspirators got around the residency requirements by paying others to add them to a residential utility account, thus allowing them to establish state residency and fraudulently acquire valid state identification. In the event of an IPO, the aforementioned relatives and close friends acted as nominee buyers of the maximum allowed number of shares. The lead defendant provided the money to make the purchases. The buyer would then transfer this stock to one of the defendants' investment accounts. The defendants would generally sell this stock in the secondary market shortly after the IPO effective date, thus generally reaping large profits on an oversubscribed offering provided to depositors at a below-market price in the IPO. The most lucrative IPO netted the lead defendant more than \$1 million profit. Since each of the IPOs in which the lead defendant and his nominee buyers bought stock was oversubscribed, this activity limited the ability of legitimate depositors to secure the maximum number of shares potentially available to them in the IPO, thus depriving them of greater potential profits.

A SAR review team identified the depository institution filing that sparked the investigation. Bank employees became suspicious when they noted wire transfers into one of the defendant's accounts and offsetting wire transfers and checks written out of his accounts aggregating to millions of dollars which the defendant could not adequately explain. The defendant also wrote millions of

dollars worth of checks to open accounts at or to purchase IPO stock in mutual financial institutions. The bank filed the SAR because it believed that the defendants might be involved in a conspiracy to exceed the limits on the number of shares a depositor of a mutual financial institution can purchase in an IPO.

One defendant received a prison sentence of several years after pleading guilty to a single count of conspiracy to commit securities fraud. As part of his plea agreement, the defendant was also required to return more than \$10 million of the funds illicitly derived from the scheme. Other defendants in the case received shorter sentences and were required to repay significant amounts of illicitly derived proceeds.

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