

## **Securities Dealer Provides Details of High Yield Investment Program Scheme**

Six defendants pled guilty and received prison time for defrauding investors in a case that started when a securities firm noticed suspect transactions and reported the activity to law enforcement. The defendants created a bogus investment scheme, marketed it over the Internet, and defrauded nearly 200 investors from around the world of more than \$16 million.

The case began in 1998 when a task force received a suspicious activity report from a brokerage firm regarding five related accounts. The brokerage firm did not file a SAR with FinCEN, as broker/dealers did not have a regulatory obligation to file SARs at that time, but maintained a close relationship with law enforcement and instead handed a paper document to U.S. Customs. The paper document was subsequently lost in the September 11 terrorist attacks on the World Trade Center in New York City.

An analysis of the accounts and documents in the possession of the brokerage firm, though, indicated that the subject business account was acting as a collection account for millions of dollars that were being sent from locations inside and outside the United States. Once received into this account, the funds were either journal transferred to one of the related accounts or transferred out of the United States. The funds that were journal transferred to other brokerage firm accounts were transferred out of these accounts to bank accounts in the United States and abroad or used to pay for personal expenses of those involved in the fraud scheme.

The defendants' convictions resulted from their development and orchestration of an elaborate scheme to defraud investors. More than ten years ago, the two primary defendants in the scheme began holding themselves out to investors as promoters of a high-yield investment program that promised massive returns within a short period of time. The defendants created a series of fictitious European banks from which investors were to "lease" funds to invest, normally for a leasing fee of about \$35,000. Payment of this fee would purportedly release \$1 million, which the defendants claimed would then be placed in the high-yield trading program. In reality, no funds were released and the investment programs were nonexistent.

The defendants pocketed the leasing fees and eventually defrauded victims out of approximately \$17 million. As the number of victims increased, and the scheme became more complicated, the defendants recruited subordinates to help maintain the illusion that brokers were recommending the investment programs and that the banks were actual financial institutions. Three of these subordinates pled guilty in the case.

In addition to the plea allocutions, the government's case at trial rested on the voluminous documentary evidence recovered during searches of the defendants' residences, including forged documents used to assure the victims that their "leased" funds were available for investment. Several victims testified, as did foreign and American banking officials who established that the banks created by the defendants were fictitious. Both lead defendants were convicted on all counts.

At the time the business accounts with the broker-dealer were discovered, the total amount collected in the account was approximately \$14 million. An additional \$2 million was located in a European country. Investigators eventually seized assets worth in excess of \$10 million which have been used to make restitution to defrauded victims. The architects of the scheme were convicted in a jury trial of conspiracy, wire fraud, money laundering, and interstate transportation of stolen property; one received a prison sentence of more than 16 years and the other received a sentence of more than 11 years.

[Published in The SAR Activity Review - Trends, Tips & Issues, Issue 15, May 2009]