



FEDERAL RESERVE BANK
OF DALLAS

June 11, 2002

DALLAS, TEXAS
75265-5906

Notice 02-27

TO: The Chief Executive Officer of each state
memberbank, bank holding company and foreign
entity in the Eleventh Federal Reserve District

SUBJECT

“Prime Bank” and Other Financial Instrument Fraud Schemes

DETAILS

In 1993 and 1996, the Federal Reserve issued advisories concerning illegal schemes purporting to involve “prime bank” financial instruments. In its alerts, the Federal Reserve advised banking organizations and the public that, among other things, it does not know of any legitimate use of any financial instrument called a “prime bank” note, guarantee, letter of credit, or debenture and that the Federal Reserve does not guarantee or enter into transactions with individuals and does not license anyone to trade “prime bank” financial instruments or act as the Federal Reserve’s agent to sell or redeem such instruments.

Since 1996, fraudulent schemes involving financial instruments have proliferated in the United States and abroad, and investors have lost significant sums of money. Federal and state law enforcement agencies, as well as the U.S. Securities and Exchange Commission, have investigated and prosecuted numerous individuals associated with supposed investment opportunities involving “prime bank” instruments or other financial instruments.

The Federal Reserve wants to again highlight the dangers associated with investing or participating in questionable transactions that promise unrealistically high rates of return and involve other dubious characteristics. Over the past several years, Federal Reserve staff has reviewed numerous illicit transactions and provided assistance to U.S. and foreign law enforcement and securities regulators and, based on this experience, has identified the following hallmarks or “red flags” associated with many fraudulent financial instrument scams that can be used to avoid them:

- References to financial instruments issued by “prime banks,” “top 100 world banks,” “top 25 European banks,” and similar references to categories or groups of banks that are not used in the banking industry.
- Promises of extremely high, unrealistic rates of return with little or no risk.
- Participation in an investment program often referred to as a “roll program (or programme),” “high yield investment program,” or “bank debenture trading program.”
- High rates of return are generated by repeatedly trading (or buying and selling) financial instruments (often over a 40-week period).
- Legitimate financial instruments, such as letters of credit, guarantees, and medium term notes, are bought and sold or traded in manners that are not realistic—for example, standby letters of credit are bought and sold.
- Transactions are overly complex and nonsensical.
- Terms that have no meaning in legitimate financial transactions are used repeatedly—for example, “conditional SWIFT,” “key tested telex,” “pay order,” “funds of good, clean, clear and noncriminal origin,” “master commitment,” “one year and one day,” and “commitment holder.”
- High degree of secrecy—for example, the trading of financial instruments takes place on a secret market, your banker or investment adviser will not know about the investment opportunity because only a few special people around the world are aware of it or participate in the secret trading, or the investor is being allowed to participate in a secret trading program and, if he or she reveals any information about the program, the investor’s participation will be terminated.
- The investor’s funds are absolutely safe and cannot be lost—for example, a bank has issued a guarantee or an attorney is holding the funds in a special escrow fund.
- Involvement of a well-known governmental authority, such as the Federal Reserve, World Bank, or IMF.
- Inaccurate references to the International Chamber of Commerce and its publications.
- Investor’s funds will be used for “humanitarian” projects.

Federal law enforcement authorities have asked the Federal Reserve to advise individuals, banking organizations, and other entities who have been approached to invest in a “prime bank” financial instrument or participate in some manner in any transaction containing the characteristics listed above to contact the local offices of the agencies. This includes the field offices of the Federal Bureau of Investigation, U.S. Secret Service, U.S. Customs Service, or Internal Revenue Service’s Criminal Investigation Division. The U.S. Securities and Exchange Commission is also actively involved with investigating securities frauds associated with these types of transactions and asks that companies and individuals alert a local office of that agency.

MORE INFORMATION

For more information, please contact Mary Bentley, Banking Supervision Department, at (214) 922-6070. Paper copies of this notice or previous Federal Reserve Bank notices can be printed from our web site at <http://www.dallasfed.org/banking/notices/index.html>.