

DATE: May 29, 2002

SUBJECT: "Prime Bank" and Other Financial Instrument Fraud Schemes (SR 02-13)

HIGHLIGHTS: 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 has identified hallmarks or "red flags" associated with many fraudulent financial instrument scams that can be used to avoid them.

The Federal Reserve System's Supervision and Regulation policy letter, SR 02-13, dated May 20, 2002, provides additional information, including the list of "red flags" mentioned above.

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 "red flag" characteristics to contact the local offices of the agencies.

DOCUMENT LOCATION: An electronic version of the SR letter is available under the "SR Letters" section of the Board of Governors' web site:
<http://www.federalreserve.gov/boarddocs/SRLETTERS/2002>

FURTHER INFORMATION: Tim Bosch, Vice President (314) 444-8440 (or 1-800-333-0810, ext. 44-8440) Banking Supervision and Regulation Department