

MEMO# 5862

May 10, 1994

STOLEN CHECKS USED FOR FUND INVESTMENT

May 10, 1994 TO: MEMBERS - ONE PER COMPLEX NO. 29-94 OPERATIONS MEMBERS NO. 17-94 SEC RULES MEMBERS NO. 33-94 TRANSFER AGENT ADVISORY COMMITTEE NO. 20-94
RE: STOLEN CHECKS USED FOR FUND INVESTMENT

The Institute has been advised that certain fund groups may be the victims of fraud involving the use of stolen checks for fund investment. We understand that in a typical case, an individual uses a stolen check to open a mutual fund account in the name of the payee of the check. When the check clears, the mutual fund account is liquidated either through the fund's check writing privileges or through a wire transfer to a bank account. One way in which this apparently is accomplished is as follows: An individual ("X") steals a check payable to another party ("Y"). At the same time, X convinces a third party ("Z") to allow X to have the money wired to a bank account registered to Z. Z consents and discloses the bank account information. X then endorses the stolen check and submits it to a mutual fund along with an application to establish a joint account in the names of Y and Z. Once the investment check clears, X requests a wire transfer to Z's bank account, and Z, unaware of the fraud, turns proceeds over to X. Often, the fraud is not detected until the mutual fund account has been liquidated, because the payee and payor of the stolen check are not immediately aware of the theft of the check. Eventually, however, the theft is discovered and the payee contacts the financial institutions involved, including the mutual fund, and demands reimbursement. We understand that a number of fund groups have suffered losses as a result of this type of scheme. The Institute has been informed that at least one fund group avoids this problem by refusing to open an account with a third party check, i.e., a check made payable to someone other than the fund or fund group. Fund groups that accept third party checks may wish to establish procedures to examine account applications for matters that in some instances may merit further inquiry, such as a) discrepancies in registration information for the mutual fund account and the bank account to which funds may be wired, and b) whether the telephone directory listing for the address of the check payee matches the address provided on the account application. It is not clear how many persons may be involved in the reported fraudulent activity or whether some activities are related. The U.S. Postal Service is investigating this matter. If you believe that your fund group may be experiencing these problems, please contact Inspector Bob Lucid of the Chicago branch of the U.S. Postal Service at 312/765-4437. Angela C. Goelzer Associate Counsel

should not be considered a substitute for, legal advice.