

**MEMO# 2873**

June 24, 1991

## **SCHEME INVOLVING FRAUDULENT ENDORSEMENTS ON THIRD PARTY CHECKS**

June 24, 1991 TO: OPERATIONS COMMITTEE NO. 20-91 TRANSFER AGENT ADVISORY COMMITTEE NO. 30-91 RE: SCHEME INVOLVING FRAUDULENT ENDORSEMENTS ON THIRD PARTY CHECKS \_\_\_\_\_ We have recently been made aware of the existence of a scheme involving fraudulent endorsements on third party checks which are deposited to mutual fund accounts and redeemed a short time later. The procedure for the fraudulent scheme is as follows: 1. An account is established using a third party check endorsed by a person that appears to be related to the payee. The name listed on the account is the name of payee or the person making the endorsement. For example, a check made out to XYZ partnership is endorsed by a person purporting to be X and to have authority to endorse for XYZ and used to open an account in the name of XYZ partnership or X. 2. Thereafter, various third party checks are deposited to the account. Neither the payee nor the payor have any obvious relationship to the account. The checks are apparently intercepted prior to receipt by the payee, fraudulently endorsed and then used to purchase mutual fund shares by assigning the checks to the accounts. For example, ABC issues a check to PQR. The check is endorsed by a person purporting to be or have authority to endorse for PQR and an assignment is made to the mutual fund account of X. 3. The account is liquidated a couple of weeks later. Thus far, all of the fraudulently endorsed checks have been made out to different payees and different payors; however, each of the payees had post office box addresses in the Los Angeles, California area. -2- If you accept third party checks to purchase mutual fund shares, you may wish to review your procedure for such acceptance. It has been suggested that you may wish to review all third party checks in excess of a certain sum and attempt to verify that the endorsement and assignment are legitimate. Please let us know if you learn of types of incidents similar to that described above or other types of fraudulent activity. We will alert members to new or pervasive schemes. Donald E. O'Connor Vice President - Operations