

Bank Secrecy Act Records “Extremely Helpful” in Tracing Proceeds from Fraudulent Venture Capital Scheme

In late 2005, two individuals pleaded guilty to running a scheme to defraud hundreds of investors out of millions of dollars through phony pre-initial public offering stock sales. The pair claimed they worked for a venture capital firm that was underwriting a public stock offering for a company. In reality, the defendants used investors’ money to support a lavish lifestyle. Investigators used BSA records to sift through a maze of shell companies to identify the movement of ill-gotten proceeds.

The individuals pleaded guilty to one count of securities fraud and one count of conspiracy to commit mail, wire and securities fraud, and were sentenced a few months later. Both face a maximum term of imprisonment of ten years and a maximum fine of twice the value of the loss to the victims in this matter.

Both admitted that, over a three-year span, they participated in a conspiracy to defraud investors by selling them bogus stock in a company that did not exist.

Specifically, the pair admitted to falsely representing to investors that they worked for a venture capital firm and the money the victims had invested would be used to purchase securities in what was described as a management company. Both admitted in court that these representations were not true, and that the stock was fraudulent. After receiving the investors’ funds, members of the conspiracy provided investors with bogus statements and falsely indicated that the investments would generate significant earnings. The defendants acknowledged that they did not place investors’ money into investments as represented, but instead diverted the investors’ funds for their own personal use and benefit and converted large amounts of the funds into cash. This scheme defrauded investors from around the country of well over \$2 million.

In an example of the reach of this fraud, a state insurance commissioner issued a cease and desist order against one of the individuals and the individual’s investment company. The order details how an investor purchased approximately \$50,000 in stock through the subject. Fraudulent statements sent to the investor reported the principal as having increased by approximately 25 percent. Rather than returning the investment to the investor along with the promised earnings, the subject allegedly reinvested the money into a stock buyout that was supposed to earn the investor more than \$1,000,000. The investor never heard from the subject or anyone from the company again.

More than 80 BSA records document financial activity associated with the scheme. A senior attorney with the Securities and Exchange Commission said that:

“The CTR and SARs reports were extremely helpful in the case. As the perpetrators used false identities, operated in unknown locations, and even when properly identified posed substantial flight risks, we could not directly contact them to ask for bank and brokerage account information. Thus, the FinCEN reports were key in determining the various accounts the perpetrators controlled, as well as the general geographic area in which they operated and the names of affiliated entities. This information helped us to eventually pinpoint the perpetrators’ true identities and determine the extent of their assets.”

The Securities and Exchange Commission accessed BSA records through FinCEN's Gateway program. The District Attorney's Office also supported the investigation. Other agencies involved include the FBI, Social Security Administration Office of Inspector General, United States Postal Inspection Service, and Immigration and Customs Enforcement.

(Investigating Agency: Securities and Exchange Commission)

[Published in The SAR Activity Review – Trends, Tips & Issues, Issue 10, May 2006]