

FRAUD IN THE OVER THE COUNTER SECURITIES MARKETS
COMMON SCHEMES AND INVESTIGATORY TECHNIQUES

SEPTEMBER 28 AND 29, 1988
John Jay College of Criminal Justice
New York City

MIAMI BRANCH OFFICE OF THE UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

FOR COURSE INFORMATION CONTACT
JERI D. DRESNER, FTS 350-5765

Description of Course

This course is designed to provide an introduction to the distribution and trading of securities, particularly “over-the-counter” stocks. The course will include examples of common schemes, as well as investigatory techniques.

Each participant will be furnished a course handbook. There will be sufficient staff present so that all questions can be answered.

Faculty

Charles C. Harper, SEC, Associate Regional Administrator, Miami Branch Office.

Charles C. Hochmuth, SEC, Chief, Branch of Regulation, Miami Branch Office.

William Hicks, SEC, Chief, Branch of Enforcement No. 1, Miami Branch Office.

Kenneth Daras, SEC, Staff Accountant, Miami Branch Office.

John Mahoney, SEC, Securities Compliance Examiner, Miami Branch Office.

Richard Norell, SEC, Chief, Office of Market Surveillance, Division of Enforcement, Washington, D.C.

Daniel Sibears, Associate Director, National Association of Securities Dealers, Washington, D.C.

“FRAUD IN THE OVER THE COUNTER SECURITIES MARKETS”

Wednesday, September 28, 1988

I. Introduction

Charles C. Harper, Associate Regional Administrator, Miami Branch Office, Program Moderator.

II. Regulation of the Securities Markets

(Harper) 9:15 a.m. - 10:00 a.m. - attachment A

A. The SEC - organization and functions:

- access to SEC files (public documents)
- access requests (non-public files)
- SEC telephone directory

B. Overview of the securities acts of 1933 and 1934. The regulatory scheme from registration of securities, to the initial distribution and subsequent trading. Periodic filings with the SEC by public companies.

10:00 a.m. - 10:15 a.m. - Coffee Break

III. The Registration Process and Exemptions from Registration

(Harper) 10:15 a.m. - 11:00 a.m. - attachment B

A. Registration Statements

1. S-1 filed in Washington
2. S-18 filed in regional offices
 - a. Blank check and blind pool offerings
 - b. Regulation D, Form D

B. Shells, spinoffs, reverse mergers, pre-'33 Act securities and intrastate offerings

C. Documents filed with the SEC after the offering (Form S-R and Form 2-A. Requirements of Section 15 (d): Forms 10K, 10Q, etc.)

IV. Sources of Information (Norell, Sibears)
11:00 a.m. - Noon - attachment C

A. Broker - Dealer Documents Available (Norell)

1. Form BD. Registration with the SEC, NASD
2. NQB Library
3. SEC public reference room
4. CRD. Form U-4, U-5
5. Focus Report I and Focus Report II
6. NASDAQ

B. Market Surveillance (Sibears)

1. Trading history (price and volume) of securities
2. What information is available from the NASD and the SEC

Noon - 1:15 p.m. Lunch

V. The Pink Sheets
(Hochmuth, Norell) 1:15 p.m. - 1:45 p.m. - attachment D

- A. How do you read them?
- B. What is a market maker?
- C. What are the requirements for a broker-dealer to insert quotes in the pink sheets?
- D. Due diligence file
- E. What is a bid and asked price? The spread
- F. Who is a trader?
- G. Common schemes involving pink sheet quotes. What to look for!

VI. Transfer Agents (Hochmuth) 1:45 p.m. - 2:00 p.m.
attachment E

- A. Records - Form TA-1
- B. Street name registered securities
- C. Cusip numbers
- D. Nominee Names

VII. Broker - Dealers: Types, Organization and Records Kept
(Mahoney, Hochmuth) 2:00 p.m. - 4:00 p.m. - attachment F

- A. Definition of Broker, Dealer, Clearing Broker and Introducing Broker
(Hochmuth)
- B. "Department" of Broker - Dealers (Hochmuth)
 - 1. Back Office
 - 2. Sales
- C. Broker-Dealer Books and Records (Mahoney)
 - 1. Order tickets (stamping etc., agency trades, principal trades)
 - 2. Confirmations *
 - 3. Trader's handbook
 - 4. Registered representatives cross reference book
 - 5. Monthly statements *

3:00 p.m. - 3:15 p.m. refreshments

- 6. Cancelled checks. Double endorsed checks to customers and/or salesperson
- 7. Purchase and sales blotter
- 8. Commission statements

9. Cash receipts and disbursements blotter
10. Securities received and delivered blotter
11. Customer ledger
12. Fails to deliver and fails to receive ledger
13. Other subsidiary ledgers and accounts
14. Stock record
15. General ledger
16. Trial balance

* Documents received by customer

VIII. Fraudulent Financial Statements
(Daras) 4:00 p.m. - 4:30 p.m.

IX. Question and Answers
4:30 p.m. - 5:00 p.m.

Thursday, September 29, 1988

X. QTC Fraud Strategies - Panel Discussion (Harper, Hicks, Hochmuth, Mahoney, Sibears, Daras) 9:00 a.m. - 12:30 p.m. attachment G

A. Boiler-room sales effort, handbook, scripts and sales training.
(Hochmuth)

New Issue

B. Free-riding and withholding (Harper)

C. Parking (Harper)

D. Use of nominee names (Harper)

E. News releases (Harper)

F. False financial statements (Daras)

10:30 a.m. - 10:45 a.m. - coffee break

After Market

- G. Manipulation (Sibears)
 - a. Definition
 - b. Common methods
 - c. “Controlling the float”
 - d. C.O.D. accounts
- H. Mark-ups and markdowns - definitions and computations. Problems in computing. (Hicks)
 - a. occasional trades with another broker-dealer to show a market where it is really non-existent
- I. No net purchase by market maker (cross trades) (Mahoney)
- J. No “Commission” paid on purchases by firm
- K. Who is taking the profits from the scheme?
- L. Large blocks of securities
- M. Source of stock firm is selling
- N. Rule 144 stock
- O. Avoiding use of prospectus
- P. Units, stock and warrants (Hochmuth)
- Q. Splitting units
- R. Selling short

XII. Conclusion 12:30 a.m. - 1:00 p.m.