

NASD NOTICE TO MEMBERS 97-24

“Limited Edition” Treasury Securities

Suggested Routing

- ☒ Senior Management
- ☐ Advertising
- ☐ Corporate Finance
- ☒ Government Securities
- ☐ Institutional
- ☒ Internal Audit
- ☒ Legal & Compliance
- ☐ Municipal
- ☐ Mutual Fund
- ☒ Operations
- ☐ Options
- ☐ Registration
- ☐ Research
- ☐ Syndicate
- ☐ Systems
- ☒ Trading
- ☐ Training

Executive Summary

The Department of the Treasury recently informed the NASD[®] that there are certain foreign individuals and groups attempting to defraud entities by offering to sell and structure transactions in non-existent United States Treasury securities. Broker/dealers have been approached with a proposal to purchase and resell a fictitious instrument referred to as “Limited Edition” U.S. Treasury securities. As part of this scheme, broker/dealers and other entities are being sought to act as fiduciaries for the transactions.

Treasury staff confirmed with the NASD that there is no such security as a “Limited Edition” Treasury security.

Discussion

The bogus “Limited Edition” Treasury securities are represented as having the following features: a 10-year term; a 6 percent annual interest rate; a \$100 million minimum purchase amount; an unspecified offering amount (i.e., the securities are represented as being available for sale until “exhausted”); and an initial price of 57 percent of the face value. In addition, the “Limited Edition” Treasury securities are issued in physical (paper) form. The proposal makes numerous other misrepresentations about the way marketable U.S. Treasury securities may be bought or sold, and it also misrepresents the role that the Department of the Treasury plays in the original sale and issuance of Treasury securities.

If domestic members are approached by individuals offering such a transaction, they should immediately contact Mr. Jim Kramer-Wilt of the Treasury’s legal staff at (304) 480-5190. If contact is made at the member’s foreign affiliate, the appropriate local law enforcement authority should be notified.

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