

December 21, 1989

The Honorable Donald W. Riegle, Jr.
105 Dirksen Building
Washington, DC 20510

Dear Senator Riegle:

At your request as Chairman of the Senate Banking Committee, I am writing you regarding securities broker Steven Schott of Shearson Lehman Hutton and his large transactions in cashier's checks and cash from the Fahey Bank.

By way of background, Schott had spoken of friends at "hedge funds." These funds would take substantial positions in new issues and quickly resell them on the secondary market, profiting on an initial run up in price of the stock after issue.

He indicated that one of the hedge funds was going to place a substantial order with him for a new issue, with the intent of immediately reselling into the secondary market.

About the same time, Schott purchased three cashier's checks at our bank totalling \$25,000.00. He asked that no payee's name be typed on the checks, stating that he would fill in the name.

Schott told us that the cashier's checks were for the hedge fund, as they expected him to use part of the large commission he receives on a new issue to reimburse them for the broker's commission they would have to pay on the resale.

When the checks returned through the system to the bank, a name of a firm had not been written in. Instead, the names of two individuals were on the checks. Both of these individuals, Fergus Sloan and Matt Hansen, were employed by a hedge fund as traders.

The endorsements on the back of the cashier's checks show that the checks were not signed over to the firm. The account numbers encoded on the back of the checks indicate that the checks were deposited into the traders' personal accounts, not the account of the firm.

Schott gave no explanation as to why \$25,000.00 of cashier's checks would go into the personal accounts of traders for an investment firm that was placing an order with him that would generate a huge commission.

The address of the firm is 41 E. 57th Street, #1920, New York, New York 10022. Trades are executed under many different names. One of the ones used was Beachhill. The tax I.D. number used was 13-2556998.

Senator Riegle
December 11, 1989
page 2

Schott also engaged in large currency transactions. On October 20, 1987, he withdrew \$137,250.00 in cash and carried it out of the bank in a duffle bag.

I trust that this provides the information you requested. If you have any questions, please contact me at 614/382-8231.

Sincerely,

Martin J. Hughes, III

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