

RED-FLAGGING Financial fraud



**You've been offered
an attractive
financial product?**

USE THIS
5-STEP
GUIDE TO DETERMINE
ANY RISK OF FRAUD.



**AUTORITÉ
DES MARCHÉS
FINANCIERS**

Who are we?

The *Autorité des marchés financiers* (AMF) is the regulatory and oversight body for Québec's financial sector. It seeks to ensure the protection of the public by applying the laws and regulations governing insurance, securities (for example, stocks and bonds), deposit institutions (with the exception of banks) and the distribution of financial products and services.

The AMF provides this guide for information purposes. It does not offer any advice on the purchase or use of specific financial products and services.

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This document is available on the [AMF website](#).

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Note

This is not a classic brochure. It is a guide you can use whenever a financial product is offered to you. Following the five steps will help you detect possible fraud and prevent a lot of headaches. In the interest of simplicity, the following steps apply only to investments but you can easily use this guide for insurance products.

How to use this guide

Start with Step 1. Read the question, then the explanation that corresponds to your answer. When you see one or more lightning bolts ⚡, be careful! There is a risk of fraud.

In case of doubt, it is best not to invest.

This guide is not a guarantee against fraud. However, it will greatly help you to recognize, avoid and report fraud.

“Almost one out of eight Quebeckers approached with a fraudulent investment fell for the scam*.”



* Source: CSA Investor Index 2009, Canadian Securities Administrators.

Step 1

Is the person offering you the investment authorized to sell investments?

If your answer is: “I have no idea”

To sell financial products, you must be registered with the *Autorité des marchés financiers*. To determine if this person is allowed to sell you investments, contact the AMF Information Centre at **1-877-525-0337**.

You can also visit the AMF website at **www.lautorite.qc.ca**. Resolve this matter before you proceed to the next step. In case of doubt, assume that your answer is “no” and read the following explanations.

If your answer is “YES”

That’s one major issue out of the way! Proceed to Step 2.

If your answer is “NO”



Risk of fraud

Dealing with a person who is not entitled to practice could cause you financial or legal difficulties, for example by limiting the recourses available to you. In such a case, don’t invest.

Don’t hesitate to contact the AMF Information Centre to determine if the person is authorized to sell you the investment or to report anyone who offers investments without being authorized to do so.



Step 2

Were you provided with full written information on the investment?

If your answer is: “I have no idea”

To answer “yes” to this question, the documents received must provide information regarding, in particular:

- The type of investment (share, bond, etc.);
- The risks of investing;
- The possibility (or not) of having access to your funds as needed and, if so, under what conditions;
- The fees associated with the investment.

If your answer is “YES”

Excellent! If you haven't already done so, read the documentation. It's your responsibility to understand what you're investing in.

If your answer is “NO”



Risk of fraud

Before you invest, insist on being given documents detailing the investment offered.

If you're unable to obtain written and reliable information, it is best not to invest.

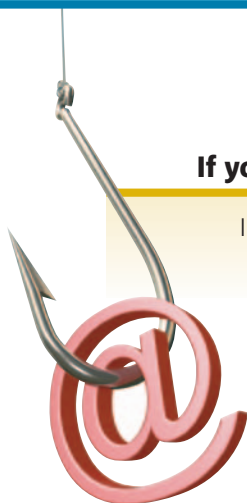
Note!

Watch out for false documents. To make sure the document has been filed with the regulatory authorities, you can contact the AMF Information Centre or check if the document in question is posted on the SEDAR website at www.sedar.com. This site contains the information required by regulatory agencies such as the *Autorité des marchés financiers*.

Make sure the account and transaction statements you receive about your investment are issued by the financial institution where your money is invested and not just by your representative.

Step 3

Is the investment being offered too good to be true?



If your answer is: “I have no idea”

In general, the higher the return you hope to achieve on an investment, the greater the risk you must be prepared to assume. This is a basic investment rule. If you're told that you will earn a 20% annual return without any risk involved, the offer should be questioned. Beware: An investment guaranteeing a 2% **monthly** return is just as unrealistic. That would generate an annual return of more than 26%!* Be careful!

If your answer is “YES”



Risk of fraud

If you're promised a high return with low risk, ask questions about the investment being offered and the person proposing it. No investment can promise substantial returns without any risk involved. If this were the case, everyone would invest in it. Don't be fooled by the claim that the number of investors is limited or that the investment is reserved for only a lucky few.

If your answer is “NO”

Good. Proceed to Step 4.

* $1.02^{12} - 1 = 26.82\%$

Did you know?

Only 24% of Quebeckers approached for a fraudulent investment have reported the latest fraud attempt against them*.

Some fraud attempts aren't reported because they seem too common or because fraud does not appear to be taking place.

Report any fraud attempt against you to the *Autorité des marchés financiers*. This could prevent others from being victimized by fraud.

Fighting fraud is everyone's business!

You don't have to be rich to be a fraud victim

In Québec, the average amount invested in a fraudulent product is about \$9,000. In one third of financial fraud cases, the amount is less than \$1,000 and in three cases out of five, it's under \$5,000*.

In case of doubt, don't invest!

Wouldn't you rather pass up a good investment opportunity that may some day come your way again than get duped into making a fraudulent investment?

* Source: *CSA Investor Index 2009*, Canadian Securities Administrators.

Step 4

When you were offered the investment, was this type of statement made to you?

- I have it from a reliable source that this investment will skyrocket. It's a sure bet.
- I invested all my money in it, and all my parents' money too.
- All my clients have put their money in this investment.
- If you're not satisfied, I'll reimburse you.
- Very few people know this, but the company is about to be bought and its value will double.
- The company will soon be publicly listed.
- The government will grant them a patent.
- It's imperative that you invest today: Tomorrow will be too late.
- There is a loophole in the law that can help us avoid paying taxes. But you have to keep it secret, otherwise the law might be amended.
- A regulatory agency (for example, the *Autorité des marchés financiers*) has "approved" the investment.



If your answer is "YES"



Risk of fraud

WARNING. These are dubious statements that fraudsters often use to induce you to invest. Be careful! Proceed to Step 5.

If your answer is "NO"

So much the better! Proceed to Step 5.

Step 5

Did the person who offered you the investment behave in the following manner?

- Often found similarities between your situation and his own.
- Bragged excessively about his skills and accomplishments.
- Made an investment proposal that seemed like the offer of your dreams.
- Tried to make you feel guilty when you told him that you were taking a pass on the investment or questioned some of his statements.
- Refused to say which firm he worked for or tried to change the subject after providing only scant information.
- Contacted you repeatedly.
- Pressured you to invest in the proposed offering.
- Encouraged you to lie, for example, about your financial situation so that he can offer you certain investments.
- Asked you to invest by making out a cheque to him or giving him cash.
- Didn't ask you questions to determine your investor profile.



If your answer is “YES”



Risk of fraud

WARNING. Although the previous behaviours do not necessarily reflect a fraud attempt, they may lead to fraud. Be particularly careful! Read the results on the following page.

If your answer is “NO”

Perfect. Read the results.

Results

If you noticed one or more lightning bolts when answering the 5 previous questions ⚡, there is a risk of fraud. You must therefore be particularly careful.

If you didn't detect any signs of fraud, there is therefore no reason to believe that this is a fraudulent investment. However, you should remain prudent. Make sure you understand the product you are investing in and that the person you are dealing with understands your needs and risk tolerance.

You didn't put money in the proposed investment, but you believe there is a risk of fraud?

Don't hesitate to contact the Information Centre. This could help the *Autorité des marchés financiers* in its efforts to better protect consumers.

Do you have reason to believe you are being victimized by fraud?

Your money hasn't been returned to you because:

- The financial institution obviously made a mistake.
- The exchange rate has fluctuated.
- The financial statements are being prepared.
- A key person or a relative has died or fallen ill.
- The person in charge is on vacation.
- They're undergoing a routine inspection and payments will continue as soon as it is determined that everything is in compliance.
- Their computer system is being upgraded for better security.
- They'll soon be announcing a major acquisition/merger.
- The cheque is in the mail.

You purchased the investment and believe you are the victim of a fraud?

You're dissatisfied with answers from the person who sold you the investment? In that case, to clarify matters, ask to talk to the person's supervisor.

If you're given the same answers, contact the AMF Information Centre.

Are you a victim of fraud?

- Contact the AMF.
- Contact your local police.
- If you gave passwords to the fraudster, change them immediately.
- Write down what has happened and collect your documents.

The AMF can assist you, through the following:

- An Information Centre;
- Brochures, conferences, one website;
- In certain circumstances, assistance in the event of a dispute between you and the business or the representative that sold you a financial product or service (mediation);
- In certain circumstances, compensation in case of fraud committed by a registered representative.

Here are 12 classic fraud tactics and a few tips to avoid headaches.

12 classic fraud tactics



1. Ponzi scheme

The Ponzi scheme can take several forms. It consists of taking an investor's money to pay bogus returns to other investors or simply to reimburse investors who want their money back. Fraudsters can also give the false impression that the investment is generating good returns and that you will have no problem recovering your money.

When fraudsters can't find new investors, they become unable to pay back the existing investors and that's when victims suspect a scam. However, by then it's too late because the money is gone.

Example:

Peter decides to put \$1,000 in an investment offered by Paul, a fraudster. After only a week, Peter receives a \$100 cheque from Paul, who explains that this is the income generated by his \$1,000 investment. Unfortunately, Peter's \$1,000 investment has actually generated no return at all, because Paul has used a portion of Peter's investment to pay him a \$100 "profit." In doing so, he hopes that Peter will pour more money into the investment or convince others to buy into it.

2. Pyramid sales

People who use this technique won't tell you it's a pyramid sale.

There are a number of variations on this fraud. Here's an example:

- You're offered a very promising investment that will generate a high return. You're asked to make the cheque out to the "promoter." You're told the money will be used to invest on your behalf.
- You have to hold the investment for a certain period of time (for example, six months);
- Besides earning an excellent return, you can make even more money by recruiting investors, who will also benefit from the "exceptional" investment. You might, for instance, be asked to recruit two people. You will receive a commission on each person you bring in, usually a percentage of the amount the latter invests. Then, you will be paid additional commission on each investor that person recruits.

The fraud:

Fact is, there is no magic investment. The fraudster uses your money to pay you investment income and recruitment commissions (Ponzi scheme). When the fraudster senses that he's about to be caught, he disappears with his investors' money.

Be careful when you are promised money if you recruit new investors. It is illegal to participate in a pyramid sale.

3. Tax havens

You've been offered to invest in a foreign country to avoid paying taxes. You've been told that it is legal but that you mustn't say anything, because the government could amend the law to plug the loophole in the system.

Investing abroad is not illegal. However, it is illegal not to declare your investment income or gains. If a person is willing to help you circumvent the law so that you pay less in taxes, he might have no qualms about running away with your money!

The fraudster doesn't choose the tax haven randomly. He invests in a country where it is almost impossible for law-enforcement agencies to trace the funds.

4. Promoting the sale of securities

You've received information that leads you to believe that the price of a security will jump dramatically. You may have received this information via the Internet, phone, e-mail, regular mail, etc. You and several other investors purchase the security, thereby helping to push the value up. The fraudsters then sell the security, thereby pushing its price down. You therefore end up with an investment that has little value. Ask yourself what people gain from giving you investment tips. Be careful!

5. Phishing or Internet fraud

You've received an e-mail from a company you do business with, asking you to update your personal information as soon as possible. Several reasons may be given:

- The company was victimized by fraud;
- Someone is fiddling with your account;
- A new law requires the institution to ask you to update your personal information, etc.

If you click on their link to fill out the form, you will see a replica of your institution's website. In fact, all the information you enter on this BOGUS website will go directly into the fraudsters' database and he will then be able to empty your account, steal your identity, etc.

Be vigilant! Generally, financial institutions do not communicate with their customers via e-mail to obtain such information. On the other hand, customers may, if they wish, access their institution's secure website to perform on-line transactions. Be careful!

To avoid this fraud:

- NEVER click on a link received in an e-mail asking you for banking or personal information, and, above all, NEVER answer such an e-mail;
- Don't be intimidated by an e-mail warning you against the disastrous consequences that may occur if you fail to follow the instructions contained in it;
- Contact your financial institution immediately to report what is happening to you, using the phone number listed in the telephone book, not the one indicated in the e-mail;

- Type in your financial institution’s complete address yourself;
- Clear your computer’s cache memory after an on-line session;
- Always exit a secure website by clicking “Log out” or an equivalent command;
- NEVER disclose your access codes and passwords.

6. Investments sold without a prospectus

A prospectus is a document containing detailed information about investments. Although the law requires that a prospectus be provided to you when you make an investment, there are exceptions, particularly if you have substantial assets. For example, a fraudster could ask you to lie about your financial position so as to be able to sell you an investment without a prospectus.

To obtain further information about the company before investing, ask for its audited financial statements.

What’s the problem if you don’t receive a prospectus*?

The information you obtain won’t be as detailed. Moreover, you won’t enjoy the same rights. For example, you will be unable to cancel your transaction within two days. Worse, barring an exception, you will be unable to launch proceedings under the Québec *Securities Act* on the basis of misrepresentation.

Watch out for false prospectuses. To make sure the document has been approved by the regulatory authorities, contact the AMF Information Centre or check if the document in question is posted on the SEDAR website at www.sedar.com. This website contains the data required by the regulatory agencies. If you are unable to obtain written and reliable information, it is best not to invest.

For further information, visit www.lautorite.qc.ca or contact the Information Centre at **1-877-525-0337**.

* Or other legal document.

7. RRSP fraud or RRSP borrowing schemes

You're told that you can withdraw money from your RRSP* right now without paying taxes. To do so, you will need to transfer the funds to an investment that will earn you a high return, for example, 40% per year. You're told that this investment is also RRSP eligible, which is why you won't pay any taxes. The fraudster is so confident about this investment that he'll offer to advance you part of the future return in cash. For instance, if you invest \$50,000, he may give you \$25,000 in cash. The fraudster explains that you're not risking anything: "Anyway, if you had taken the money out of your RRSP, you would have had to pay half in taxes."

What are you risking by investing?

- Your money is not invested in the vehicle in question at the incredible rate. Instead, you may be investing in a company that's worthless or that belongs to the fraudster. You will therefore lose your \$50,000. Besides, contrary to what the fraudster told you, the investment is not RRSP eligible.
- You will receive a notice from Canada Revenue Agency claiming taxes for the funds withdrawn from your RRSP. You may very well have to pay the taxes even if you were a victim of fraud.
- In order to pay the taxes owed, you'll have to use the \$25,000 so generously offered by the fraudster.
- So in the end, the only winner is the fraudster, who makes off with your \$25,000 (\$50,000-\$25,000).
- Warning: Amounts withdrawn from your RRSP, LIRA or pension fund are taxable.

Be wary when people make amazing promises. When something is too good to be true, it usually is. This investment may have no value.



* It may also be a locked-in retirement account (LIRA), a pension plan or other registered amounts.

BE CAREFUL! This fraud has several variations. For example, some fraudsters will tell you that in order to withdraw money from your RRSP without paying taxes, you must first transfer your RRSP to an “on-line broker” (discount broker). To give their scheme a veneer of credibility, fraudsters will let you select a broker. They will then ask you for your passwords so they can access your accounts, telling you that they will manage them on your behalf. Fraudsters will then use this information to empty your accounts at the first chance. Remember that you must **NEVER** disclose your passwords or personal information such as your social insurance number, your mother’s maiden name, etc., except to companies in which you have complete trust and confidence. **BE CAREFUL!** Some fraudsters are extremely adept at winning their victims’ trust.

8. Fraudulent telemarketing

You’ve received a phone call from a stranger offering you to invest in a once-in-a-lifetime opportunity. Indeed, in addition to generating a much higher return than any other form of investment, it involves no risk whatsoever.

Never let yourself be fooled by this type of call. In fact, you should never invest over the phone unless you make the call yourself. You risk putting your money directly into the hands of fraudsters.

Bogus voicemails

You have a voicemail.

Linda, it’s Paul. I lost your old number and Jane told me that this is your new number. I hope I got it right. Do you remember the guy who helped me with my investments? He gave my father a great tip. The investment doubled in less than a month and if I remember correctly, you were disappointed that I didn’t share the tip with you. Well, I have a new one from my friend.

Company XYZ is about to launch a revolutionary product; it will be announced later this week. Now’s the time to buy their stock because the price will soon jump, and my friend said we have to invest right away. I’m buying some and so’s my father. I’m on the road today so call my cell at XXX-XXXX. Talk to you soon.

You don’t know Paul or Linda. The caller is trying to manipulate you. If you call back, you’ll be asked to make an investment (fraudulent) and you’ll lose your money. This same message may have been left in thousands of voicemail boxes. The same ploy can be used for fraudulent mass marketing schemes through e-mails, text messaging or the Internet.

9. Affinity groups

Fraudsters associate with people who share the same beliefs or even interests in order to build their credibility. They won't hesitate to boast about their wealth and success, at first subtly, then with greater fanfare. They forge ties with you, after which they propose "outstanding investments." In some cases, they will ask you to keep the matter quiet, as this is a golden opportunity they only want to share with their friends. In reality, the fraudster will be the only one to benefit from this golden opportunity!

When it comes to your finances, view all investment offers critically, whether they are made by strangers or friends. Even if a friend is making the offer, he still has to be registered with the *Autorité des marchés financiers* to sell you investments.

10. Mining shares

Someone suggests you buy shares in a gold, silver or any other type of mine. According to the promoter, a geologist has claimed that the quality and richness of the mineral deposit is exceptional. Fortunately, you are told, few people know about it, but the news is bound to spread quickly. In some cases, you will be told that the mineral can be extracted thanks to a new technology. In actual fact, the mine contains little or no minerals, and the shares you bought are practically worthless. Of course, not all mining shares are fraudulent.

To limit the risk of fraud, check the following before investing:

- Does a recent prospectus confirm the promoter's statements?
- Is there a recent technical report that confirms the quality and quantity of the deposit?
- Is the geologist or engineer responsible for the information on the quality and quantity of the deposit a member of a professional order?

If the answer to any of these questions is no, the promoter's offer is probably not legal and you'd be better off not investing.



11. Buying back shares

You've taken a beating on your investments but beware of fraudsters!

Some fraudsters will take advantage of the fact that you lost money on your investments and make you an offer that's hard to refuse: They'll offer to buy back your shares at a higher price than their actual value. For example, you paid \$2 for stock that's currently worth only \$0.06 per share and someone offers to buy them back at \$1 per share, explaining that some people are prepared to pay more than what the shares are actually worth because they can then declare capital losses and save a lot on taxes. However, if you accept this offer, you will have to pay a hefty transfer fee. Once you've handed over the money, the fraudster disappears and "forgets" to buy back your shares.

12. Insurance fraud

You buy insurance and pay your premium in cash or by cheque to the person who sold you the insurance. Instead of remitting the funds to the insurer, this person makes off with your money, leaving you uninsured.

You buy insurance... but you're not insured

Ding dong. Mary opens the door and after a few pleasantries asks Jack, the ABC Inc. insurance representative, to come in. After evaluating her insurance needs, Jack sells Mary insurance at a very competitive price. To activate the policy, Mary has to write a \$500 cheque to Jack because he cashes his commission and then transfers the difference electronically to the insurer. This way, Mary will be insured that very day.

A few months later, when putting her papers in order, Mary realizes that she never received confirmation of the insurance. When she tries to call Jack, she's surprised to reach a pizzeria instead. So she calls insurer ABC Inc. only to find out that Jack doesn't work for the company. In fact, he doesn't work for any insurance company: he's a one-man show.

Jack—probably not his real name—is a fraudster. He sells fake insurance and pockets the premiums. He sells life, car, home insurance and even investments. Mary is out \$500.

You don't hear much about this type of fraud. The victim often loses only the amount of the premium, i.e. far less than in certain investment frauds. But what would have happened if the victim had a claim that was supposedly "covered"? The loss could have been much higher.

There are a few variations on this fraud. Sometimes, the representative is indeed registered with the AMF but sells insurance from a carrier that doesn't exist. In other cases, the insurer may exist but the carrier does not offer the insurance sold.

If the representative is registered with the AMF and certain other conditions are met, you may be eligible for compensation.

To avoid this fraud:

Make sure the person selling the insurance is registered with the *Autorité des marchés financiers*.

Call the insurance company to confirm that your insurance is in effect.

Pay your premium by cheque payable to the company registered with the AMF. Never write a cheque payable to the representative.



Are you a victim of fraud?

- Contact the AMF.
- Contact your local police.
- If you gave passwords to the fraudster, change them immediately.
- Write down what has happened and collect your documents.

The AMF can assist you, through the following:

- An Information Centre;
- Brochures, conferences, one website;
- In certain circumstances, assistance in the event of a dispute between you and the business or the representative that sold you a financial product or service (mediation);
- In certain circumstances, compensation in case of fraud committed by a registered representative.

To contact the *Autorité des marchés financiers*

Québec City

Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1

Montréal

800, square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Information Centre

Québec City: 418-525-0337
Montréal: 514-395-0337
Elsewhere: 1-877-525-0337

You can also visit the AMF website
at www.lautorite.qc.ca.