

[lautorite.qc.ca](http://lautorite.qc.ca)



# 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**

Among Quebecers approached by  
fraudsters, close to

**2/5**

were taken in<sup>1</sup>.

---

To prevent fraud, use this guide as a handy reference when you are offered a financial product. Simply follow the five steps to detect possible fraud and maybe prevent a lot of headaches.

<sup>1</sup> Source: 2014 AMF Index.

# Table of contents

Step 1 .....	4
Step 2 .....	5
Step 3 .....	7
Step 4 .....	9
Step 5 .....	10
<b>Results .....</b>	<b>11</b>

<b>Classic fraud .....</b>	<b>16</b>
1. Ponzi scheme .....	16
2. Pyramid sales .....	17
3. Tax havens .....	18
4. Pump and dump .....	18
5. Trash and cash .....	19
6. Phishing or Internet fraud .....	20
7. Investments sold without a prospectus .....	22
8. RRSP fraud or RRSP borrowing schemes .....	22
9. Fraudulent telemarketing .....	24
10. Affinity groups .....	25
11. Friends or family in distress .....	25
12. Mining company shares .....	26
13. Buying back shares .....	27
14. Currency market fraud – FOREX .....	27
15. Fraud using binary options .....	29
16. Energy fraud .....	31
17. Insurance fraud .....	32
18. Investments in firms producing medical marijuana .....	33

## Step 1

**Someone offers you a financial product, such as an investment or insurance policy. Is the person, and the firm he or she works for, authorized to sell it to you?**

### If your answer is: "I have no idea."

The person and the firm he or she works for must be authorized to sell you the financial products being offered. To determine if the person and the firm have this right, contact the *Autorité des marchés financiers* (AMF) Information Centre at 1-877-525-0337.

You may also consult the *Register of firms and individuals authorized to practise* at [www.lautorite.qc.ca](http://www.lautorite.qc.ca). If you have not been able to check the information, 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 or firm that is not authorized to practise could cause you financial or legal difficulties, for example by limiting the recourses available to you. In such a case, do not purchase the financial product. Don't hesitate to contact the AMF Information Centre to determine if the firm and person are authorized to sell you the product you are interested in or to report anyone who offers financial products without being authorized to do so.

## Step 2

### Were you provided with full written information on the financial product?

#### If your answer is: "I have no idea."

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

##### **For an investment:**

- 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

##### **For insurance:**

- The coverage provided
- The cost of insurance
- The exclusions

#### If your answer is "YES"

Excellent! If you haven't already done so, read the documentation. It's your responsibility to understand financial products before purchasing them.

#### If you answer is "NO"

##### Risk of fraud

Before investing, ask for documents detailing the financial product offered.

If reliable written information cannot be provided, it is best not to purchase the product offered.

If you invest in a mutual fund<sup>2</sup>, ask for the Fund Facts. The Fund Facts is a document written in plain language, no more than two pages double-sided, which highlights key information for investors (e.g. composition of fund, return over the past 10 years, fund risks and fees). The prospectus contains much more information than the Fund Facts, and you can also obtain it if you want.

Watch out for false Fund Facts and prospectuses. Check whether the documents in question are posted on the SEDAR website at [www.sedar.com](http://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.

Make sure the account and transaction statements you receive about your investment are issued by the institution where your money is invested and not just by your representative. This institution should also be listed in the AMF Register of firms and individuals authorized to practise.



Have you received a prospectus or Fund Facts document that contains misrepresentations?

You have rights under the Securities Act in relation to the distribution of the prospectus and Fund Facts. A remedy in your favour is provided for if the prospectus or Fund Facts document contains misrepresentations.

<sup>2</sup> Fund made up of money pooled by investors and managed on their behalf by a manager. The manager uses the money to purchase stocks, bonds, or other securities according to the fund's objectives.

## 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 return that beats the market without any risk involved, you can seriously put into question such an offer.

If you are told that the investment is guaranteed, ask yourself:

- Who guarantees the investment? If an individual guarantees it, be wary. Usually, an investment may be guaranteed by a financial institution or, for a deposit, by *Autorité des marchés financiers* or Canada Deposit Insurance Corporation deposit insurance.
- What is guaranteed: the return, the amount invested, or both?
- Are there fees for the guarantee?
- What are the conditions for taking advantage of the guarantee? Does the investment need to be kept for 5, 10 or 20 years?

If you answer "YES" or "NO,"  
see the next page.



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"

Excellent! Proceed to Step 4.

## DID YOU KNOW?

**1/25**

Proportion of respondents to the [2014 AMF Index](#) who were victims of financial fraud.

## 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 my parents' money too.
- All my clients have put their money in this investment.
- If you're not satisfied, I'll reimburse you personally.
- You're part of a select club. You were chosen to have this information. You are one of the privileged or lucky few to be able to take advantage of this exceptional offer.
- 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. Don't mention it even to your family.
- A regulatory agency (for example, the *Autorité des marchés financiers*) has "approved" the investment.
- Sign a proxy for me so that I can manage your investment portfolio.

### 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"

Excellent! 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 could offer you certain investments.
- Asked you to invest by making the cheque out in his name or by giving him cash.
- Did not ask you any 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”

Excellent! Read the results on the following page.

#### **APPEARANCES ARE SOMETIMES DECEIVING!**

A fraudster is often someone who wears expensive clothes, has a nice office, rides around in a luxury car and knows influential people.

## RESULTS

**If you noticed one or more red 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 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 AMF Information Centre. The *Autorité des marchés financiers* could then take action and better protect consumers, by investigating the matter, for instance.

## YOU DON'T HAVE TO HAVE A LOT OF MONEY TO BE A FRAUD VICTIM

In Québec, the average amount invested in a fraudulent investment is about \$9,000. In one third of financial fraud cases, the amount is less than \$1,000<sup>3</sup>.

<sup>3</sup> Source: 2012 CSA Investor Index, Canadian Securities Administrators

## **YOU PURCHASED THE INVESTMENT AND BELIEVE YOU ARE THE VICTIM OF A FRAUD?**

You've asked the person who sold you the investment for explanations, but his answers leave you wondering? In that case, to clarify matters, ask to talk to the person's supervisor.

If you are not satisfied, contact the AMF Information Centre.

### **Here are a few things fraudsters say to avoid giving you your money back.**

- The financial institution obviously made a mistake.
- If you withdraw your money right now, you'll lose a lot of money.
- You're better off waiting for the market to pick up.
- The exchange rate has fluctuated.
- The financial statements are being prepared.
- The person handling your file or a close relative is sick or has just died.
- The person in charge is on vacation.
- The company is undergoing a routine inspection and payments will continue as soon as the auditors have 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.

## **Are you a victim of fraud?**

- If you gave passwords to the fraudster, change them immediately.
- Write down what has happened and collect your documents, ideally the originals.
- Contact the AMF.
- Contact your local police.
- Order your credit file from credit rating agencies (TransUnion and Equifax) to make sure that no one has spent money in your name.
- Consult a lawyer if necessary.

## **The AMF can assist you through the following:**

- An Information Centre.
- In certain circumstances, compensation in case of fraud committed by a registered representative. For more information, consult the [AMF website](#).





## DID YOU KNOW?

---

# Cybersurveillance

In 2010, the AMF set up a team of investigators specializing in cybersurveillance. The team uses specialized software programs to uncover individuals and businesses offering financial products to Québec investors without being authorized to do so. In addition, the investigators monitor the activities of certain sites considered suspicious. Depending on circumstances, these investigators are able to infiltrate operations and help the AMF to file cease trade and freeze orders. This measure aims to alert the public and protect assets in the course of investigations. The AMF also files legal proceedings with the courts. Don't hesitate to report suspicious websites to the AMF.

---

## CLASSIC FRAUD

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



### 1. The Ponzi scheme

The Ponzi scheme consists in taking an investor's money to pay bogus returns to other investors or simply to reimburse investors who want their money back. Fraudsters can thus 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. The Ponzi scheme can be combined with many other types of fraud.

#### 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

Pyramid sales are product sales systems (e.g. investments) whose profits come mainly from recruiting new members. The item sold is an excuse to recruit members.

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 each person invests. Then, you will be paid an 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.

**NOTE!** People who organize pyramid sales, as well as those who participate in them, are liable to lawsuits.



### 3. Tax havens



Simply put, a tax haven is a place where there is little or no income tax. To attract you, some fraudsters will offer to invest there. They tell you that it is legal but that you mustn't say anything, because the government could amend the law to close 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. Pump and dump



You read news items that lead you to believe that the value of a security will jump dramatically. The security in question is sold on Over-the-Counter (OTC) Markets or via Pink Sheets. You receive the information on discussion forums, on social media and via press releases. You and several other investors purchase the security, thereby helping to push the value up. All you need to do then is to wait for the value of the security to increase even more, as forecast. Mistake! That's when the value suddenly falls to almost nothing, and you lose everything. What happened?

Since the securities are not very liquid, a single buyer can increase its price significantly. The opposite is also true: A single buyer can quickly make the value plunge. The fraudsters own a large quantity of the securities that you purchased. They purchased them at a very low price and resell them to you at a very high price. You end up paying too much for securities that are not worth anything. The company in which you invested is often an empty shell with no assets, and you find yourself with a worthless investment.

To avoid this fraud, ask yourself what people gain from giving you investment tips. Be careful, especially before investing in Over-the-Counter (OTC) Markets or Pink Sheets. Ask yourself the following questions:

- Do you understand the characteristics, risk, liquidity and potential return of the company you want to invest in?
- Is the corporate information to which you have access reliable?
- Did you consult the company's audited financial statements?
- Does it have cash assets?
- Does it have a heavy debt load?
- Does it have revenues?
- Is it profitable?
- Since when has it been operating?
- Has it succeeded in marketing its products or services?
- Who are the company's officers and directors?
- What is your risk tolerance?
- Can you afford to lose your stake?

## 5. Trash and cash



This is the opposite of the previous fraud. Here, the fraudster circulates information implying that an illiquid security is likely to drop dramatically and needs to be sold. Victims sell the security, which plunges in price. The fraudster then moves in to buy it at a low price.



## 6. Phishing (web-based fraud)

Phishing is a fraudulent technique that involves making victims believe they are dealing with a trusted entity, for instance a financial institution or the government, in order to obtain their personal information.

Example: 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, who will then be able to empty your account, steal your identity, etc.

**Be careful!** 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.
- Always exit a secure website by clicking "Log out" or an equivalent command.
- Clear your computer's cache memory after an on-line session.
- NEVER disclose your access codes and passwords.

## PHISHING THAT TARGETS BUSINESSES

Some fraudsters pass themselves off as the CEO of very large companies to send e-mails to their employees. The fraudsters are targeting the company's financial controller or corporate accountant. They announce the upcoming conclusion of take-over bids and refer to complying with an apparent AMF procedure.

Usually, the fraudsters specify that the recipient of the e-mail was chosen because of his trustworthiness. He is asked to provide banking data or transfer funds to an external person and to be discreet so as to respect the AMF's procedure.

The AMF asks the public not to respond to this kind of solicitation and to quickly report the situation or contact an Information Centre agent.



## PHONY AMF EMPLOYEES

Some fraudsters send e-mails pretending they are employees or consultants of the AMF or other regulatory bodies. They try to make their victims believe that they want to help them recover amounts invested in bad investments or recover losses from unauthorized on-line trading platforms. To do so, they ask you to fill out a form with the AMF's logo and to send it via e-mail, along with various confidential banking documents.

To avoid being a victim of identity theft, never answer this type of e-mail and quickly report the situation to the AMF Information Centre. Always check the legitimacy of the request by calling the institution involved yourself. Fraudsters often require fees payable in advance in order to "benefit from their services." They then disappear with your money.

## 7. Investments sold **without a prospectus**<sup>4</sup>



A prospectus is a document containing detailed information about investments. Although the law requires that the person you are dealing with provide you with a prospectus when you invest, there are exceptions, particularly if you have substantial net<sup>5</sup> 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 more information about the company or trust before investing in it, ask whether audited financial statements are available.

If you can't get your hands on a prospectus, you may need to settle for less detailed information. Moreover, you may not 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 Securities Act on the basis of misrepresentation.

For further information, visit our website at [www.lautorite.qc.ca](http://www.lautorite.qc.ca) or contact the AMF Information Centre at **1 877 525-0337**.

## 8. **RRSP fraud** or RRSP borrowing schemes



You're told that you can withdraw money from your RRSP<sup>6</sup> 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 \$30,000 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."

<sup>4</sup> Or other legal document

<sup>5</sup> Assets less liabilities

<sup>6</sup> It may also be a locked-in retirement account (LIRA), a pension plan or other registered funds.

## What are you risking by making this investment?

- 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 \$30,000 so generously offered by the fraudster.
- So in the end, the only winner is the fraudster, who makes off with a neat \$20,000 (\$50,000 – \$30,000).



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.

There are a number of variations on this fraud. 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.

Be careful! Some fraudsters ask you to sign proxies, so as to make you benefit from offers that seem appealing. Actually, they use these proxies to empty your account.

## 9. 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 if a stranger calls you up to invest. 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.



## 10. 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 emphasis. 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!

View all investment offers critically, whether they are made by strangers or friends. Even if it's a friend, check whether he is authorized to sell the investment he is offering you (see page 4).



## 11. Friends or family in distress

Someone you know writes to you on Facebook or other social network. He explains that he is in a bind and immediately requires your financial assistance. For instance, he may have been unfairly arrested abroad and needs money to pay a fine, or else he will be imprisoned under terrible conditions.

Be careful! Some fraudsters take on the identity of an acquaintance in order to extort money. If the person seems to be in a bizarre situation and asks you for money, ask him questions that only he would know the answer to, such as the name of a mutual friend's spouse. It's especially important that you first check his identity and discuss the matter with friends or family, before doing anything.



## 12. Mining company 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 used for fraudulent purposes.

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.

Be careful! Fraudsters often use mining companies to manipulate share values, by using scam 4, pump and dump.



### 13. 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.



### 14. Currency market fraud – FOREX

Investors who trade in currency markets usually do so on a website for that purpose. They trade contracts that commit them to exchanging a certain amount of a currency for another one. For example, an investor could sign a contract to sell Canadian dollars in exchange for US dollars. He makes a profit if the US dollar increases in value versus the Canadian dollar. Otherwise, he loses money.

Although there is nothing illegal about investing in the foreign exchange market, you must make sure to observe certain rules to avoid making costly mistakes:

- Follow the steps of this guide (deal with an authorized firm, do not expect high returns without risk, have sufficient information about the investment, be wary of suspicious claims and behaviours).
- Don't expect to shelter gains.
- Check whether this type of transaction corresponds to your investor profile.

The currency market is complex and fluctuates a lot. It is for investors who have enough knowledge and time to track it. Although you can make money from it, you can also lose large amounts. Be wary of promises that are too good to be true such as:

- Become a FOREX pro in just a few days!
- Take advantage of free advice from our experts.
- You can't lose.
- Invest at no risk!
- Make easy money working from home!
- Use our foolproof software to make money!

**Be careful!** In some cases, you will be offered free training touting the benefits of investing in the currency market.

They may offer simulated transactions using fictitious amounts so that you come out a winner.

In other cases, you will be invited to try to win money using the trading platform provided. During these tests, the platform may be rigged so that you win often. This will prompt you to invest more, but the reality could be far different when you invest with your actual money.



## 15. Fraud using binary options

Binary options are like a wager. You bet that an asset will rise or decline in value within a very short, specific amount of time, for example 10 minutes, after which you'll either receive a pre-determined cash payout or you'll lose your entire wager.

For example, you expect a share or currency to gain value in the next 10 minutes. You therefore buy a \$100 binary call option in order to profit from this anticipated rise in price. When the option expires, if the share or currency has increased as you wagered, you will recover your \$100 investment plus a pre-determined fixed amount (e.g. a payout of 80%, or \$80). If you're wrong and the security loses value, you lose your \$100. In the long term, this type of product is strangely like gambling: you will lose.

### **BEWARE IF YOU'RE TOLD THERE'S NO RISK!**

Some websites encourage you to become a trader of binary options. They may offer simulated transactions using fictitious amounts so that you come out a winner. They claim that you can't lose money, that it's risk-free and that they'll reimburse you if you lose your wager. However, the results might be quite different when you invest with actual money. When you read the fine print, you'll see that you could lose your investment.

Websites where binary options are traded are sometimes associated with fraudulent schemes, including software manipulation to generate trades at a loss, but to the fraudsters' advantage. Worse yet, in the unlikely event that you win money, you could have difficulty getting paid. In addition, to speculate on this product, you will have to provide confidential information that the fraudster could use to steal your identity.

## CONSULT THE REGISTER...

Many binary options trading websites are based abroad and do not have a licence from the *Autorité des marchés financiers*. Once your money is transferred to another country, your ability to recover any funds in the event of problems is very limited. The AMF maintains a list of websites that are not authorized to offer such investment products and services in Québec. The list is updated when new unauthorized sites are brought to its attention. Check the Investor Warnings section on the AMF website regularly. This list is not exhaustive; always check whether the person or company you are considering investing with is duly authorized.

Investors who lose money on binary options trading websites often receive calls afterwards from individuals claiming to be able to help them recover their investment in exchange for an upfront payment or a file opening fee. This is a typical “double dipping” or “recovery room” strategy used by scam artists to defraud their victims a second time. Never respond to unsolicited offers promising to recover losses you’ve incurred as the result of a fraud.



## 16. Energy fraud

Over the past few years, the prices of oil and natural gas have fluctuated greatly. Many fraudsters take advantage of this to promote fake oil and gas companies, or attempt to convince investors to buy wind, solar or new energy-efficient technology securities.

They promise very high returns over the phone or by e-mail. In an attempt to provide their investments with legitimacy, some fraudsters claim that well-known companies have invested in them.

**Be careful!** The fraudsters may have a professional-looking website, brochures and research reports on glossy paper. The documents presented may be falsified reports about real drilling sites. To commit their wrongdoing, fraudsters often use worthless shell company securities in the area of new technologies.

### How to avoid this fraud?

Check out the investments thoroughly and ask questions before investing, especially about fees and risks.

- Be mindful that investing in resources is risky.
- Beware if you are told that a new energy source has been invented, especially if it seems too good to be true.
- Do not invest in something that you are unfamiliar with.
- Be suspicious of sales techniques designed to force you to invest, e.g. high-pressure sales tactics.
- Check whether a recent prospectus confirms the promoter's claims.
- Ask for advice from an authorized representative.
- Always follow the five steps of this guide before investing!



## 17. 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 at the number he gave her, 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.

### Avoiding such fraud:

- Make sure the person selling the insurance is authorized to do so by calling the AMF at 1-877-525-0337. You may also consult the Register of firms and individuals authorized to practise at [www.lautorite.qc.ca](http://www.lautorite.qc.ca).
- Call the insurer to confirm that your insurance is in effect.
- Pay your premium by cheque payable to the company registered with the AMF. This company may be an insurance firm or an insurer. Never write a cheque payable to the person offering you the insurance.

## 18. Investments in firms producing medical marijuana



Further to the enactment of new regulations by the government of Canada on April 1, 2014, many companies have announced their intention to begin growing and selling medical marijuana.

In many of these cases, just the announcement of intent to develop a medical marijuana business has resulted in an immediate rise in a company's stock price. Be aware that companies cannot legally conduct a medical marijuana business without a [licence from Health Canada](#), and that there is likely significant time and cost required to obtain such a licence.

**There is no assurance that a company announcing its intent to enter the medical marijuana industry will be successful in obtaining a licence, or in creating shareholder value.**



You now know how to avoid fraud? Perfect! Don't hesitate to report any fraud attempt against you to the AMF. This could prevent others from being defrauded.

---

**Fighting fraud is everyone's business!**

---

# Who are we?

---

The Autorité des marchés financiers (AMF) is the regulatory and oversight body for Québec's financial sector. It particularly 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.

## NOTICE

---

The AMF, its management and staff are not responsible for the consequences of any errors contained in this document. This guide is intended for information purposes only. It does not offer any advice on the purchase or use of specific financial products and services. The published texts have no legal value. Should you have any questions, please contact a professional.

The information contained in this document is up to date as at September 2015.  
This brochure is available on the AMF's website.  
Legal deposit – Library and Archives Canada, 2015  
ISBN 978-2-550-73489-5 (Print version)  
ISBN 978-2-550-73490-1 (PDF)



**AUTORITÉ  
DES MARCHÉS  
FINANCIERS**

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, rue du square Victoria, 22<sup>e</sup> étage  
C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3

**INFORMATION CENTRE**

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

[lautorite.qc.ca](http://lautorite.qc.ca)

