

Your personal
anti-fraud guide

RED-FLAGGING FINANCIAL FRAUD



You've been
offered an
attractive
investment?

Use this
5-STEP
guide to
determine
any risk
of fraud.

Who are we?

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

Its mission is to ensure the protection of the public by applying the laws and regulations governing the following areas of activity: insurance, securities, deposit institutions (with the exception of banks) and the distribution of financial products and services.

The *Autorité des marchés financiers* provides this brief guide for information purposes. It does not offer any advice on the purchase or use of specific financial products and services.

The information contained in this guide is up to date as of March 2008.

Your personal anti-fraud guide

This document is available in the *You are a consumer* section of the AMF website.

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NOTE

This is not a classic brochure. It is a guide you can use whenever an investment is offered to you. Following the five steps will help you detect possible fraud and prevent a lot of headaches.

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.



Please note that the word “fraud” in this brochure also refers to schemes or embezzlement.

Step 1

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

If your answer is: “I have no idea”

The person who sells investments must have the right to practice.

To determine if this person is entitled to practice, contact the AMF Information Centre directly using the contact information provided at the end of this guide. 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 and proceed to Step 3.

If your answer is “NO”



RISK OF FRAUD

Before you invest, insist on being given documents detailing the investment offered. 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 website contains the information required by the regulatory agencies.

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

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 offering a 2% **monthly** return with no risk involved 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 and the investment is reserved for only a lucky few.

If your answer is “NO”

Good. Proceed to Step 4.

Did you know?

Just 17% of those who have been approached with an attempted fraud reported their most recent experience.*

Some attempted frauds are not reported because they seem too common or it is not clear that they are fraud.

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!



Over one million Canadians have been victims of financial fraud; half of them met the fraudster through a person they trusted.*

* Source: 2007 Canadian Securities Administrators (CSA) Investor Study: *Understanding the Social Impact of Investment 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.
- 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.
- I invested all my money in it, and all my parents' money too.
- If you're not satisfied, I'll reimburse you.
- All my clients have put their money in this investment.
- 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.

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.
- Asked you to keep matters secret.
- Told you that a regulatory agency had “approved” an investment.
- Contacted you repeatedly.
- Pressured you to invest in the proposed offering.

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. You should have a good understanding of the product you are investing in and make sure 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 information 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.
- Our 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.

The AMF can assist you:

- Via its Information Centre, which is set up to assist consumers;
- By providing, in certain circumstances, mediation support to resolve a dispute that may arise between you and the business or the representative that sold you a financial product or service;
- Through protection and compensation programs;
- By developing educational tools and programs (brochures, conferences, websites, etc.);
- By ensuring that the businesses and representatives operating in the financial products and services sector follow their complaint examination policy.



10 classic frauds

Here are 10 classic fraud tactics and a few tips to avoid headaches.



1. Pyramid sales ⚡

Even though this scam dates from the 1920s, it still claims numerous victims today. Be careful: fraudsters who use this system won't tell you it is a pyramid sale.

You can recognize this fraud by the following signs:

- To invest, you are asked to pay a fee. This fee is collected by the people at the top of the pyramid;
- You must recruit new members to earn money.

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

You should be able to avoid falling into this trap as of Step 1 of this guide, since there is a strong likelihood that the fraudsters aren't registered with the AMF to sell investments.

2. 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.

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. In fact, 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.

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.

Although not all investments in tax havens are illegal, be prudent! 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!

4. Promoting the sale of securities

You've received information that leads you to believe that the value 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 value 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 financial institution's website. In fact, all the information you enter on this **BOGUS** website will go directly into the fraudsters' database and they will then be able to empty your account, steal your identity, etc.

Be vigilant! Generally, financial institutions do not communicate with their customers via Internet 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 being taken in by 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;
- When using a public computer, clear the cache memory;
- **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, in particular if you (alone or with your spouse) have net assets of over \$400,000. 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 false or misleading information.

Fraudsters could thus take advantage of your lack of information and legal recourses to sell you investments.

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, read the brochures *Prospectuses made clear* and *Prospectus Exemptions*, which are available on the AMF website or by contacting the Information Centre.

7. RRSP fraud or RRSP borrowing schemes

This fraud starts when you are made to believe that you can withdraw money from your RRSP without paying taxes. To reach consumers, fraudsters appear to favour the use of classified ads, though they may resort to other methods, such as the Internet, e-mail, regular mail, friends, etc.

Fraudsters will propose that you use the money in your RRSP to purchase shares of an “RRSP eligible company.” A \$20,000 investment, they claim, could earn you \$10,000 in cash.

The problem is that you won’t receive the \$10,000 promised, because shortly after the transaction, the company will close its doors. What’s more, the shares you will have bought will be worthless!

Unfortunately, that’s not all: You will later receive a letter from both governments requesting payment of taxes on the amounts withdrawn from your RRSP. Contrary to what you were told, the company in which you invested was not RRSP eligible.

Conclusion: Not only did you lose \$20,000 from your RRSP, you also have to pay taxes on your RRSP withdrawal. To make sure an investment is RRSP eligible, check with the Canada Revenue Agency.

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 a 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 persons in whom 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.

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!

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.

Brochures to help you with your investments

Update your financial position

Choose the investments that suit you

Short Investment Glossary

Choosing a securities firm and representative

Mutual Funds

Watch out for securities fraud

Prospectuses made clear

Prospectus Exemptions

Checklist

You've been offered a seemingly attractive investment?

Use the 5 steps of this guide to determine any risk of fraud. The lightning bolts ⚡ indicate that there is a risk of fraud.

YES	NO	
1	⚡	Is the person offering you the investment authorized to sell investments?
2	⚡	Were you provided with full written information on the investment?
3	⚡	Is the investment being offered too good to be true?
4	⚡	When you were offered the investment, was this type of statement made to you? <ul style="list-style-type: none">▪ I have it from a reliable source that this investment will skyrocket. It's a sure bet.▪ 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.▪ I invested all my money in it, and my parents' money too.▪ If you're not satisfied, I'll reimburse you.▪ All my clients have put their money in this investment.▪ 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.
5	⚡	Did the person offering you the investment behave in the following manner? <ul style="list-style-type: none">▪ 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.▪ Asked you to keep matters secret.▪ Told you that a regulatory agency had "approved" an investment.▪ Contacted you repeatedly.▪ Pressured you to invest in the proposed offering.

TO CONTACT THE *AUTORITÉ DES MARCHÉS FINANCIERS*

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2640, boulevard Laurier, bureau 400
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Montréal

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Montréal (Québec) H4Z 1G3

Information Centre

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Montréal: 514 395-0337
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You can also visit the AMF website at www.lautorite.qc.ca



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INFORMATION. REGULATION. PROTECTION.