

Investor Forum

Appendix D

Working together: The 2007 Investor Forum



Investor Forum

OSC Enforcement Branch Boiler Room Unit

Illegal Distributions
Misrepresentations
Fraudulent Offerings

Scott Boyle,
Assistant Manager, Investigations
Enforcement Branch

Boiler Rooms

Term used to describe a fraud scheme in which salespeople are hired to call unsuspecting individuals and push investment opportunities.

High pressure calls are often used to pitch worthless or nonexistent securities.

Investment Opportunity

- ▶ Pre-IPO opportunity
- ▶ Listing on exchange pending
- ▶ Limited Shares available
- ▶ Exclusive offering

Investment Opportunity

- ▶ Little or no risk
- ▶ Sure thing
- ▶ Double your investment
- ▶ Guaranteed

CSA 2007 Investor Study

1 in 20 Canadians
Victim of investment fraud

40% of Canadians
approached with investment fraud

CSA 2007 Investor Study

Victims

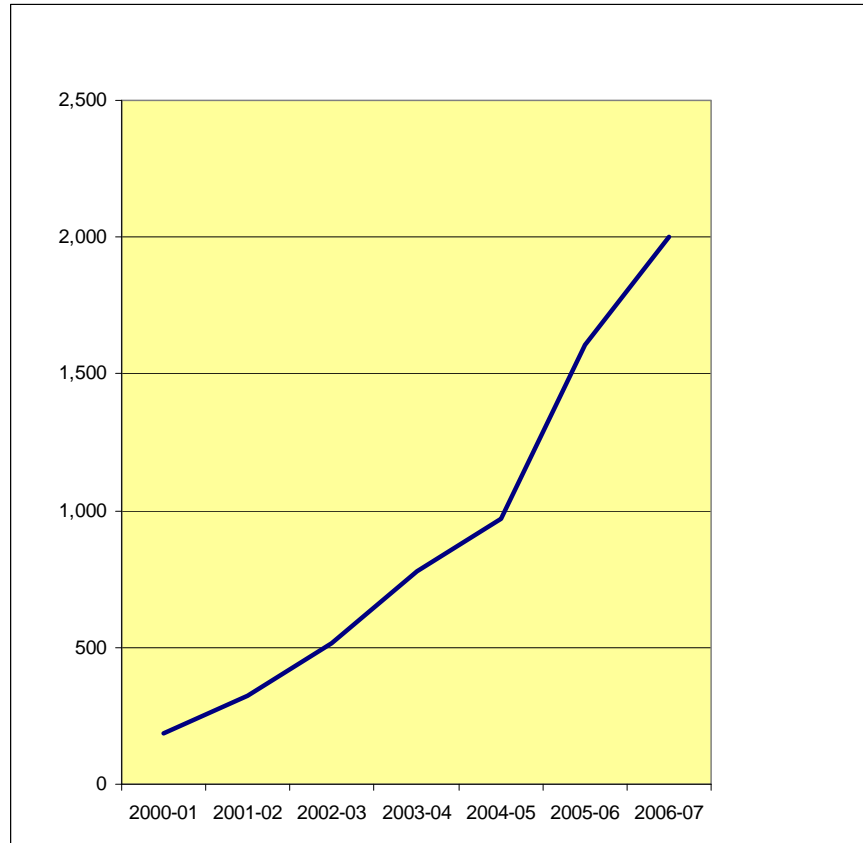
22%

reported a one time investment fraud

28%

reported a repeat investment fraud

OSC Scam Inquiries 2000-2007



OSC Boiler Room Unit

Identify Fraudulent & Scam Offerings

Investigate Boiler room activities

Expose individuals involved

OSC Boiler Room Unit

- ▶ Disrupt – Search warrants – inspections
- ▶ Prevent – Cease Trade Orders
- ▶ Prosecute – Section 122 & 127

Investment Experience?

- Identified themselves as:
“experienced investors”
- 41% investing for greater than 11 years

Victims of Investment Fraud

Demographics?

- 26% were between 51-60 years old
- 38% older than 60 years of age

Victims of Investment Fraud

Gender?

- 81% male

How Much?

- Average investment = \$40,000

Victims of Investment Fraud

How?

- 57% report first contact was by telephone
- Victims were often pursued by boiler room for more than 6 months
- 26% reported contact by four or more boiler rooms

Victims of Investment Fraud

15% of victims were persuaded to invest on the
FIRST call !!!

Impact of Investment Fraud

Victims of less than \$10,000

63%

less willing to make future investments

Impact of Investment Fraud

Victims of greater than \$10,000

75%

are less willing to make future investments

Impact

49%

introduced by friend, co-worker, neighbour or family

75% of victims

no recovery of any money

Creating the illusion

- ▶ Adoption of an existing company identity
- ▶ Fraudulent Web sites
- ▶ Identity concealing e-mail addresses
- ▶ Prepaid Cellular telephones, VOIP

Creating the illusion

- ▶ Post office boxes (suite 6131)
- ▶ Virtual Office locations – Business Centres
- ▶ Document illusions – backdating
- ▶ Fictitious investment advisors & staff

The Hook

- ▶ Ground Floor Opportunity, Pre IPO
- ▶ This is how the “rich” get richer
- ▶ My active investors are coming on board with some very large positions
- ▶ Time sensitive – Act now or miss out “AGAIN”
- ▶ Restricted offering – can only give you 10,000 shares

Qualifier / Closer / Loader

- ▶ Qualifier: First Contact confirm identity and interest
- ▶ Closer: Subsequent calls to victim; Makes the sale
- ▶ Loader: Ladders victim into successive purchases

Selling Techniques

- ▶ Working from prepared scripts
- ▶ Refined to adopt successful selling techniques
- ▶ Use of psychological tools to disarm potential investors
- ▶ Honesty / credibility / references

Psychological tools

- ▶ “We are in this together”
- ▶ “I personally have over \$50,000 in XYZ Corp”
- ▶ “I have my whole family invested in this”
- ▶ “I’m working for you”

The Ladder

- ▶ “Start small and let me prove myself”
- ▶ Price increase - Opportunity to purchase more stock
- ▶ “instant paper profit”

The Ladder

New opportunity – repurchase first issue at \$\$ profit
\$\$

Sell second fraudulent issue with a minimum size
block purchase

Advance fee scam – Contact investors to sell
worthless stocks for an administrative fee

Red Flags

- ▶ Exclusive opportunity
- ▶ Time sensitive
- ▶ Information is only available from seller

Red Flags

- ▶ Foreign jurisdiction involvement
- ▶ Off-shore banks (even US)
- ▶ Foreign brokerage firms – Where are they registered?

Protect yourself

Hang Up!

- Investment professionals don't create relationships over the phone

Due Diligence?

- Confirm information from “legitimate” 3rd parties

Contact the Regulator

Provincial regulators can confirm registration of individuals or firms

Report to the regulator the contact and provide information

OSC Contact Centre

www.osc.gov.on.ca
inquiries@osc.gov.on.ca

Toll free 1-877-785-1555
416-593-8314