Protect your money
Avoiding frauds and scams



Canadian Securities Administrators
Securities regulators from each province and territory have teamed up to form the Canadian Securities Administrators (CSA). The CSA is primarily responsible for developing a harmonized approach to securities regulation across the country.

www.securities-administrators.ca

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You've heard the saying "if it sounds too good to be true, it probably is." It's good advice, but how can you tell what's too good to be true? After all, a scam has to be believable to be successful.

The CSA have put together this guide to help you recognize and avoid frauds and scams. Our members include the 13 securities regulators of Canada's provinces and territories. If you have questions or want more information, contact your local securities reg ulator listed on the back cover.

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Are you vulnerable to fraud?

There is no "typical" victim of fraud. Professional scam artists go after your savings, or try to get you to borrow to "invest" with them. This means that if you have money, or assets that can be turned into cash, to invest, you're vulnerable to fraud.

Most successful scams are built on trust. Scam artists often start off by asking seemingly harmless questions about your health, family or hobbies. For example, they may find out that you're worried about not having enough money to retire on. They then use what they've learned to target their sales pitch to your specific situation.

You don't have to be wealthy to be scammed. One-third of fraud victims are scammed for less than $1,000. Another 18% are taken for between $1,000 and $5,000.[1]

Whatever the amount, it can be difficult or impossible to get your money back once you've given it to a scam artist.

[1]Canadian Securities Administrators. October 2009. CSA Investor Index 2012.

How you may be approached

Here are some common ways a scam artist may try to get you to part with your money.

Through a group you belong to

Affinity fraud is a type of scam that targets groups such as religious groups, seniors' groups, ethnic communities or social clubs. The scam artist may be a member of the group or may know someone in the group. These scams are often successful because many people are less likely to question advice that comes from someone they know.

A common type of affinity fraud is the pyramid (or Ponzi) scheme. Typically, investors are recruited through promises of high returns. Early investors often receive returns fairly quickly from "interest cheques." They may be so pleased with their returns that they re-invest, or recruit friends and family as new investors.

Here's the catch: The investment doesn't exist. The "interest cheques" are paid from investors' own money and the contributions of new investors. The scheme eventually collapses when the number of new investors drops.

Investment seminars

Investment seminars have become a popular way of promoting investments. The investments themselves may not be scams, but the sales tactics used at these seminars often raise concerns.

Some presenters are paid to promote specific investments that offer high returns. They may not tell you that these products are risky and may not be appropriate for you. The presenters are usually very good at public speaking and generating excitement about the investment. They'll use high-pressure sales tactics to get you to invest on the spot or to schedule a follow-up appointment.

How you may be approached cont'd

Unsolicited e-mail or phone call

Many scams begin with spam e-mails that promote a certain stock. These e-mails typically promote risky investments for which there's little information available.

You may also get an unsolicited phone call about an investment opportunity. The caller may ask you questions about yourself and use the answers to manipulate you into a quick sale. They'll also use high-pressure tactics, like repeat calls or limited-time offers.

The business may sound real. The caller might give you an address in the financial district, or direct you to a toll-free number or a website that looks legitimate for more information. However, the information on their website may be fake, and the address they give you may be nothing more than a post office box.

Be skeptical of any stock tips you get from an unsolicited e-mail or phone call. It's a good idea to assume the tip is a scam until you've done your own research on the investment.

Types of investment scams

New types of investment scams appear every day. However, most are a variation on one of these common scams.

Exempt securities scam

Exempt securities, on their own, are not scams. They're sold by companies that are allowed to sell the securities without filing a prospectus.

The scam usually starts when you get an unsolicited pitch to invest in a promising business that is about to offer shares to the public. You may be told that this investment is only available to very wealthy people, but an exception can be made for you—all you have to do is sign some paperwork. This paperwork usually involves lying about how much money you make.

Exempt securities are risky, and you could lose all of your investment. If you have to lie about how much money you have before you can invest, you are likely taking on a risk you can't afford.

Forex scam

These scams often find their victims through ads placed in newspapers or on Internet sites. The ads look legitimate and offer you an exciting opportunity to invest your money on the foreign exchange (forex) market. You'll be told the person investing your money has a great track record and you'll be promised a high return.

What usually happens is that your money is not invested in anything, but simply is stolen by the scam artist. If your money is invested in the forex market, you may not have been told that the investment is very risky. Either way, you're likely to lose some or all of your money.

Types of investment scams cont'd

Offshore Investment

In this type of scam, the fraudster will promise you a high return from an investment in an offshore market. They will often tell you the investment is a great way to avoid taxes.

What you may not know is that once your money is sent to another country and is in someone else's control, you may not be able to get it back. The promised high return comes with a high risk that you'll lose your entire investment. If the promised tax savings are a scam, you could also end up owing the government money in back-taxes, interest and penalties.

Pension scam

If someone tells you there is a way to take the money out of your locked-in retirement account without paying tax, it's likely a scam. In most cases, you can't take money out until you reach a certain age. Also, there are often limits to how much money you can take out each year, and you will pay tax on the money you withdraw.

If you hear about a tax loophole that will let you access your funds early, talk to a qualified, independent tax expert before you invest.

The "pump and dump"

In a typical pump and dump scam, you receive an e-mail or phone call promoting an incredible deal on a low-priced stock. What you don't know is that the person or company contacting you owns a large amount of this stock. As more and more investors buy shares, the value skyrockets. Once the price hits a peak, the scam artist sells their shares and the value of the stock plummets. You're left holding worthless stocks.

Types of investment scams cont'd

You can be a victim of fraud more than once

Once you've been the target of a scam, you may be targeted again. In fact, many of fraud victims are defrauded a second time. This is known as "double-dipping." Here's how it often works:

1. The person who scammed you keeps your information or sells it to someone else.
2. After some time has passed, you're contacted again—either by the first scam artist or by a new one.
3. The caller explains that your investment is about to pay off and the time is right to sell your shares, but you'll need to pay a "transaction fee" or "tax" first. This is usually a significant percentage of the amount you originally invested.

If this happens to you, chances are the original investment was a scam. Don't send more money. Report the scam to the police or to your local securities regulator listed on the back cover.

Investment fraud checklist

Most scams have some common warning signs that are fairly easy to spot. Before you invest, ask yourself these questions:

1. Were you promised a high return on a low-risk investment? ☐ Y ☐ N
One of the first rules of investing is that higher return equals higher risk. In other words, the more money you can potentially make on an investment, the higher the risk of losing some or all of your investment.

2. Did you have enough time to make a decision? ☐ Y ☐ N
You should never feel pressured into buying an investment on the spot. If you hear things like "act fast," "one-time opportunity" or "buy now before it's too late," the person you're talking to likely has something to hide.

3. Were you given confidential or "inside" information? ☐ Y ☐ N
A scam artist may claim to have information that nobody else knows about a company. You have no way of knowing if this "inside" information is true. And even if it is, trading on inside information is illegal in Canada.

4. Can you verify the investment with a credible source? ☐ Y ☐ N
If you receive an unsolicited investment opportunity, get a second opinion from your registered financial adviser, lawyer or accountant.

5. Is the person who contacted you registered? ☐ Y ☐ N
Anyone who tries to sell you an investment or give you investment advice must be registered unless they have an exemption. You can contact your local securities regulator, listed on the back cover of this guide, to check if someone is registered. You can also use the National Registration search on the CSA website.

If you think it's a scam
Don't be afraid to say no. Just hang up the phone, delete the e-mail or walk away.

Protect your money

Now you've read about what to look for when it comes to frauds and scams. The best way to protect your money is to be an informed investor.

Know your investment goals

If you have a financial plan, you're more likely to choose investments that are right for you.

Before you invest, you may want to set investment goals. Write down what you want to accomplish and by when. Next, think about how much risk you're comfortable taking with your money.

Once you've set your goals and decided how much risk you can take, spend some time learning how different types of investments work. Get a sense of what kind of returns you can reasonably expect for a particular level of risk. This will help you figure out what types of investments may help you reach your investment goals. If you need some guidance, you may want to talk to a financial adviser.

Know what you're investing in

Before you buy any investment, find out as much as you can about it. Read financial documents, like the prospectus and financial statements.

Also take the time to read:

- analysts' reports
- financial newspapers and websites
- investment newsletters and news groups

You can get a lot of useful information from these sources, but remember each source only forms part of the overall picture of a company. Be skeptical of what you read and check as many different sources as you can to get a more complete picture. You can also get a second opinion from an independent financial adviser.

Never invest in anything that you don't fully understand. Take your time making investment decisions and never sign documents you have not read carefully.

Protect your money cont'd

Know who you're dealing with

Anyone who tries to sell you an investment or give you investment advice must be registered unless they have an exemption.

Also, anyone selling you investments should ask you about your financial situation, investment objectives, knowledge, experience and risk tolerance. This "know your client" information is critical for determining what investments are suitable for you. Make sure the person you're dealing with asks you for this information.

Know who to call for help

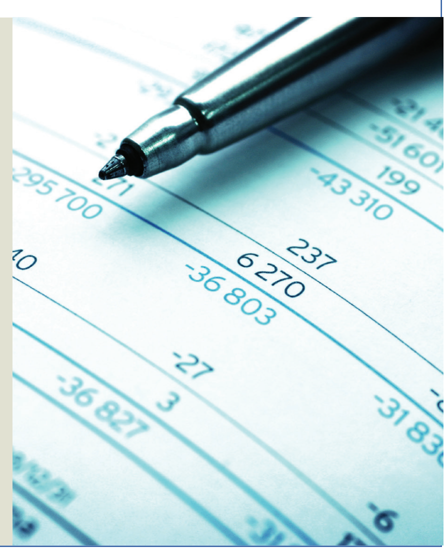
Securities regulators oversee Canada's capital markets and the advisers who sell and manage securities traded in those markets. We strive to protect investors from unfair, improper and fraudulent practices while fostering a fair and efficient marketplace.

You can contact your local securities regulator to check if a person and the firm they work for are registered, and to find out if they have been involved in any disciplinary actions.

What is a prospectus?

A company is generally required to put out a prospectus before it sells securities to the public. It includes information like:

- a history of the company and a description of its operations
- a description of the securities being offered
- a list of directors and officers
- financial statements
- a summary of the major risk factors affecting the company
- how the company will spend the money it raises by issuing the securities



Protect your money cont'd

If you have a complaint

If you are unhappy with the advice or service you receive, you may want to make a complaint or consider finding another adviser.

Here's what to do if you want to make a complaint:

- **Start with your adviser or their firm.** Be clear about what went wrong and when. State the outcome you expect (for example, an apology, getting your account corrected or getting your money back). Use the When Your Adviser Calls, Take notes! notepad to record details of phone calls or meetings with your adviser or their firm.

If you're not satisfied

- **Ask about the firm's complaint process.** Follow the steps suggested. This could involve contacting a manager or the firm's compliance department. Put your complaint in writing. Be sure to keep notes of who you spoke to and what was discussed.

If that doesn't work

- **Contact your local securities regulator.** They can tell you what your options are, depending on the type of complaint you have. In most cases, you have to go through the firm's complaint process first.

You may also want to consult a lawyer to get advice on your rights and options.

Know where to go for help

Securities regulators oversee Canada's capital markets and the advisers who sell and manage securities traded in those markets. We strive to protect investors from unfair, improper and fraudulent practices while fostering a fair and efficient marketplace.

Our free, objective guides can help you learn more about investing, how specific investments work and choosing an adviser. They're available on the CSA's website at www.securities-administrators.ca or by contacting your local securities regulator listed below.

- Investing basics: Getting started
- Your investment planning worksheet
- A Guide to Investments
- Working with a financial adviser
- Understanding mutual funds

Members of the Canadian Securities Administrators www.securities-administrators.ca

Alberta Securities Commission
www.albertasecurities.com
checkfirst.ca
403-297-6454 or 1-877-355-4488

British Columbia Securities Commission
www.investright.org
604-899-6854 or 1-800-373-6393

Manitoba Securities Commission
moneysmartmanitoba.ca
204-945-2548 or 1-800-655-5244 (MB only)

Financial and Consumer Services Commission (New Brunswick)
www.fcnb.ca
1-866-933-2222

Office of the Superintenent of Securities Newfoundland and Labrador
servicenl.gov.nl.ca
1-709-729-4189

Office of the Northwest Territories Superintendent of Securities
www.justice.gov.nt.ca/en/divisions/legal-registries-division/securities-office/
1-867-767-9305 or 1-867-873-0243

Nova Scotia Securities Commission
http://nssc.novascotia.ca
902-424-7768 or 1-855-424-2499

The Office of the Superintendent of Securities, Nunavut
867-975-6590

Ontario Securities Commission
GetSmarterAboutMoney.ca
1-877-785-1555
inquiries@osc.gov.on.ca

Prince Edward Island Office of the Superintendent of Securities
www.princeedwardisland.ca/en/topics/securities
902-368-4550

Autorité des marchés financiers (Quebec)
www.lautorite.qc.ca
1-877-525-0337

Financial and Consumer Affairs Authority of Saskatchewan
www.fcaa.gov.sk.ca
306-787-5645

Office of the Yukon Superintendent of Securities
yukon.ca/en/doing-business/securities
1-800-661-0408 ext. 5466 (YK only)

Updated: December 2019