

Boiler room fraud

A boiler room fraud is a type of investment fraud which uses high pressure, cold call sales techniques to induce people to buy worthless or bogus stocks and shares.

Introduction

Investors can be attracted by promises of high returns with little or no risk. But investments that seem too good to be true usually are. Many types of investment fraud entice potential investors by promising unrealistic returns.

Investment fraud is big business and can take many different forms.

One type of investment fraud that is becoming increasingly common and sophisticated uses high pressure sales techniques to mis-sell worthless or bogus shares to defraud monies from unwitting investors. UK investors are estimated to lose over £200 million each year to share-related fraud.

What is a boiler room fraud?

According to the Serious Fraud Office, boiler room fraud (sometimes called 'share scams') is 'the cold calling of victims by fake stockbrokers persuading them to buy stocks or bonds that are worthless or non-existent'.

Most boiler rooms operate from call centres based overseas, predominantly in Europe, Asia and the USA. Some use UK telephone numbers or postal addresses to disguise this, or may even impersonate genuine UK firms.

Boiler rooms target both novice and experienced investors. The average loss per victim is about £20,000.

Thinking about investing?

Before you invest it is important that you understand exactly what it is you are buying. While there are many types of legitimate investments available, there are also many which are fraudulent. But by doing some research and looking for common warning signs you will be able to avoid being scammed.

Always check that any stockbroker or firm

offering stocks and shares for sale is authorised by the Financial Services Authority (FSA) to conduct investment business in the United Kingdom. Otherwise you will not be able to access complaints procedures or compensation through the Financial Services Compensation Scheme if things go wrong.

The warning signs

Be aware of the warning signs of a boiler room fraud:

- **Unsolicited contact, usually from overseas:** You receive an unsolicited telephone call, letter or email from a 'stockbroker' offering you the opportunity to invest in shares that promise a high rate of return. It is illegal for UK-based stockbrokers and firms to cold call investors to sell shares. Hang up and ignore future phone calls.
- **High-pressure sales pitches:** Bogus stockbrokers are often very convincing, persistent and use high-pressure sales tactics. Some use abusive or threatening language to intimidate potential victims. Do not be pressured into something you are unsure of.
- **Unique investment opportunities:** Shares may be offered in small unquoted companies, in new technologies or to a selected few by 'invitation only'. Be wary if you are asked to keep details of the proposed investment secret. If it sounds too good to be true, it probably is.
- **Request personal or financial information:** Some boiler room frauds request payment of an upfront fee for taxes or as security. Do not provide your bank account, credit or debit card details or other personal information until you are certain that you are dealing with a legitimate firm.
- **Not authorised by the FSA:** Stockbrokers and firms must be

authorised by the FSA to conduct investment business in the UK. If they are not authorised, do not do business with them.

If you encounter any of these issues – proceed with caution! Investigate further and seek advice from an independent professional financial advisor.

Reporting fraud

If you think you may have become the victim of an investment fraud report it to your local police station or to Action Fraud by calling 0300 123 2040 or visiting the website www.actionfraud.org.uk.

You may also wish to complete the City of London Police's online survey to help law enforcement better understand the problem by visiting the website <http://www.cityoflondon.police.uk/CityPolice/Departments/ECD/Fraud/boilerroom.htm>.

If you have been contacted by an unauthorised overseas firm trying to sell you shares, report it to the FSA by visiting the website <http://www.fsa.gov.uk/pages/doing/Regulated/Law/Alerts/form.shtml>.

Recovering your money

Most victims of boiler room frauds never get their money back.

Reporting the matter to the police or to Action Fraud will often represent the most realistic prospect of recovering any money.

For victims who have lost a significant sum of money, it may be possible to pursue civil recovery proceedings to recover losses. To maximise the prospects of success it is important to act immediately upon discovery of the fraud and seek professional legal advice.

If you become a victim of a boiler room fraud, be wary of any organisation which contacts you and offers to recover your money on payment of an upfront fee. This may be a 'recovery room fraud'.

How to protect yourself

DO:

- ✓ Seek professional and independent financial advice.
- ✓ Ask questions! Make sure you understand what type of asset you are investing in and the investment strategy behind it.
- ✓ Compare the market to see whether the return you are being offered is realistic and consistent with those offered by other similar investments.
- ✓ Review historic returns and ensure that these are in line with the market.
- ✓ Check the FSA register to see whether the individual or business is authorised to conduct investment business in the United Kingdom.
- ✓ Know who you are dealing with. Look the company up on the Companies House website to see whether it is a registered company and review its annual report and accounts.
- ✓ Take your time to make an informed investment decision.
- ✓ Report an investment fraud to Action Fraud.
- ✓ Remember, if it sounds too good to be true, then it probably is.

DO NOT:

- ✗ Believe everything you are told.
- ✗ Buy investments from unauthorised individuals or businesses. The FSA publishes warnings about unauthorised firms (based in the UK and overseas) offering financial products to UK investors on their website (see 'warnings and alerts').
- ✗ Be pressured to invest by cold callers, friends, family or acquaintances.
- ✗ Invest in schemes that promise returns based on recruiting new investors.
- ✗ Agree to make an investment in a high-pressure meeting or presentation.
- ✗ Invest in a multi-level marketing plan or investment without professional and independent financial advice.
- ✗ Invest in a scheme that has a secretive strategy or is too complex to understand.
- ✗ Send money or give your bank account details to cold callers without having first checked whether the caller and investment are legitimate.
- ✗ Forget that you can say no to an investment opportunity.

Further information

Helpful websites for making informed investment decisions.

Action Fraud

www.actionfraud.org.uk

Companies House

www.companieshouse.gov.uk

Consumer Direct

www.consumerdirect.gov.uk

Financial Services Authority (Register)

www.fsa.gov.uk/register/home.do

Fraud Advisory Panel

www.fraudadvisorypanel.org/

National Fraud Intelligence Bureau

www.nfib.police.uk

The Law Society

www.lawsociety.org.uk

The Law Society of Scotland

www.lawscot.org.uk

US Securities and Exchange Commission

www.sec.gov

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