



Strengthening Our Toolkit to Fight Impacts of Financial Fraud During the COVID-19 Pandemic

A webinar of the IFIE Caribbean Working Group

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Frauds and Scams: A legislative approach to deterrence

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Disclaimer

The views expressed in this presentation are those of the speaker(s) and do not necessarily represent the views, formal or otherwise, of the Securities Commission of The Bahamas.

Overview of Discussion

A discussion of The Bahamas' move to protect investors from the ever-present danger of frauds and scams via the introduction of cutting-edge legislation to criminalize fraudulent financial schemes including pyramids, Ponzis and other fraudulent activities.

The Financial and Corporate Services Providers Act, 2020 came into effect on 14 December 2020.

We answer the questions:

- What was the impetus for the decision?
- What is a fraudulent financial scheme? Who is liable?
- What deterrents does the Act provide?
- How is implementation progressing?

Pyramid Schemes

Pyramid schemes are a form of fraud where the expected benefit to members depends primarily on the number of individuals they recruit, which is not necessarily the case in a Ponzi scheme.

Ponzi Schemes

Ponzi schemes often grow larger than pyramid schemes as they can take in unlimited amounts from a single individual and can continue to operate indefinitely, as long as payments demanded by investors from the scheme do not exceed payments by investors into the scheme.

Market Manipulation

The pump-and-dump is the most famous of these, and the growing popularity of cryptocurrencies and reliance on social media for news is feeding them.

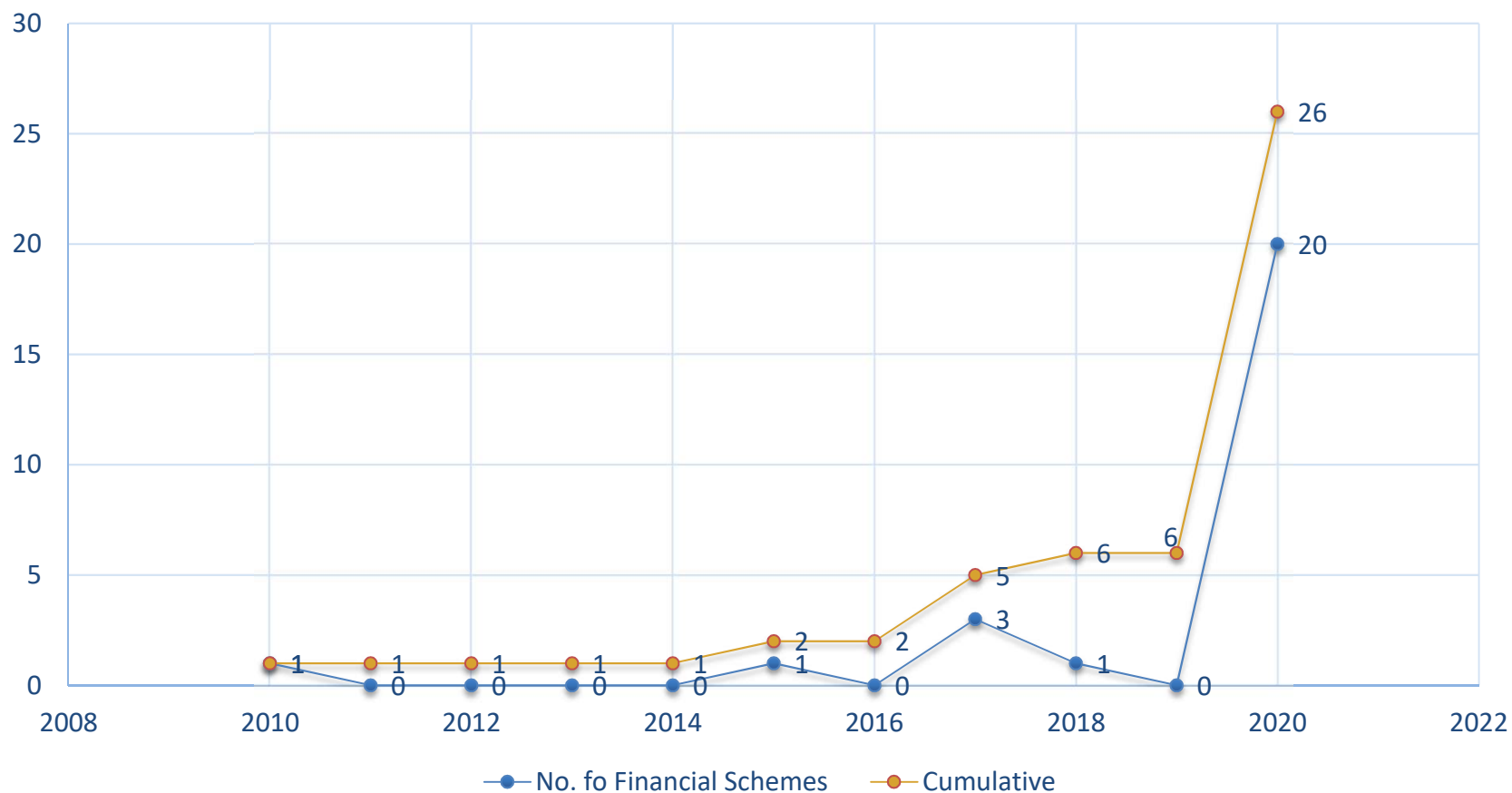
Advance Fee Fraud

Some rich hapless person you don't know sends you an email asking your help with some emergency funds, after which the person will send you millions in return.

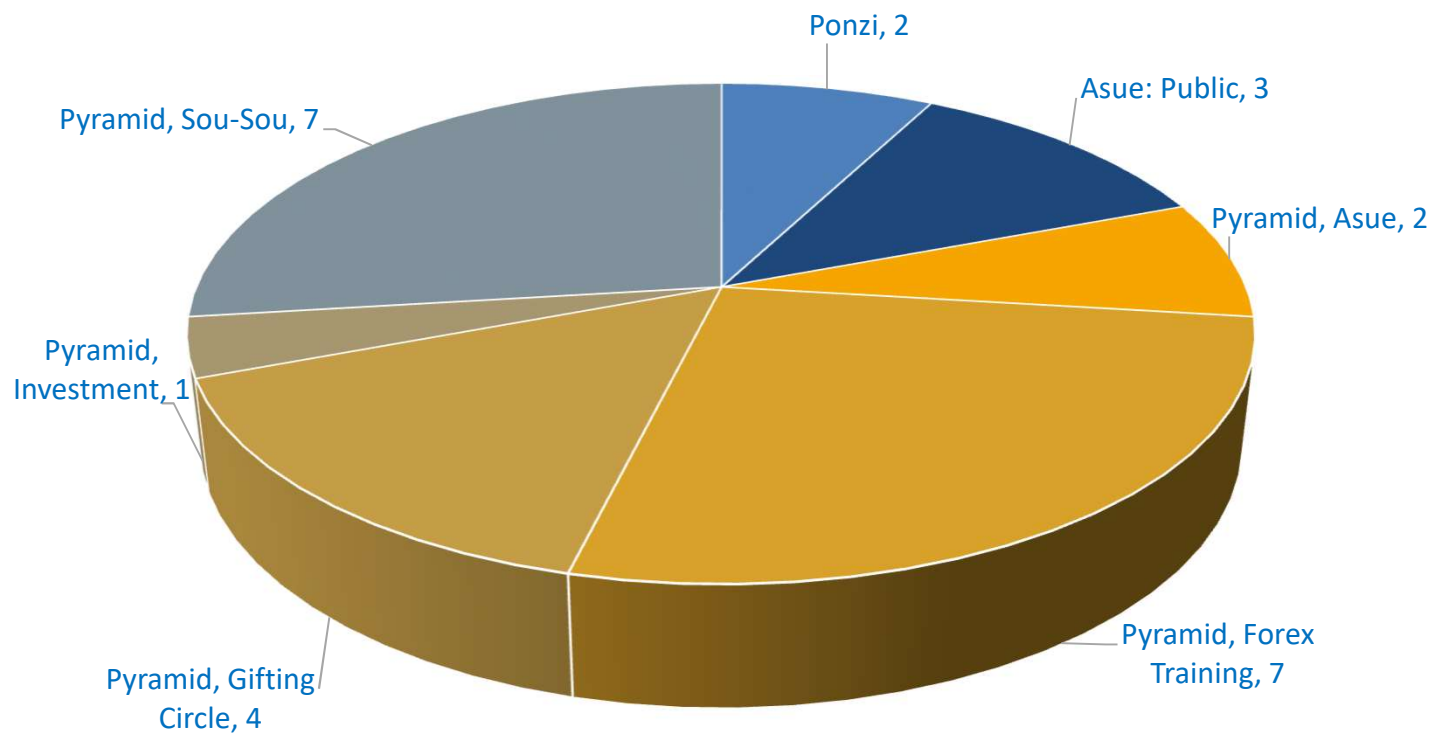
Multi-Level Marketing (MLM) schemes

A pyramid scheme may attempt to masquerade as a MLM arrangement, **which is a legitimate business activity in many jurisdictions**. MLM members are salesmen who sell a legitimate product but also receive commissions by their recruits sales , their recruits' recruits, and so on.

Financial Schemes Investigated in The Bahamas: 2010-2020



Types of Schemes Investigated, 2010 – 2020



Fraudsters-Making the Most of a Crisis

Investor beware: Traditional African 'sou-sou' savings clubs have become the latest pyramid scheme

"The FTC is warning consumers of the risks of a new money scheme that is spreading across social media and has become popular in the Black community"

Pittsburg Post-Gazette 20 August 2020

Pyramid Scheme warning for T&T

"Pyramid schemes may take many forms ... even traditional "sou-sou" arrangements.

Daily Express 20 August 2020

Pyramid Schemes Cash in on Crisis

"Securities Commission [of The Bahamas] warns over rising pyramid and Ponzi Schemes"

The Tribune 15 September 2020

It's not a sou-sou, Vincentians warned about pyramid schemes

"The Financial Intelligence Unit (FIU) and the Financial Services Authority (FSA) of St Vincent and the Grenadines along with the Eastern Caribbean Securities Regulatory Commission (ECSRC) are the latest regulatory authorities to issue warning."

Loop News 13 October 2020

“Financial schemes” includes any scheme in which –

- (a) a business is structured in such a way that the returns an investor or client earns is directly tied to the number of persons they recruit to join the scheme;
- (b) the amount or size of the income any one person earns while participating in the scheme depends on the persons rank in the scheme, which rank is related to when the person joins the scheme;
- (c) the amount or size of the income any one person earns while participating in the scheme is directly tied to or depends on the person's success in recruiting other persons to join the scheme;
- (d) persons are required to first purchase a financial product or financial training offered by the scheme before they can participate in and earn income from the scheme, and neither the product nor training can be offered for resale to the general public;
- (e) persons are required to pay an advance fee, either as a lump sum or by instalments, in order to receive a larger financial return which is solely based on the number of persons recruited to the scheme;

“Financial schemes” (cont’d)

- (f) persons are offered an opportunity to work remotely for compensation but participation depends on the payment of a fee or purchase of financial training products or material;
- (g) persons are promised or paid a commission if they facilitate the transfer of funds to a third party utilizing their bank account;
- (h) part of the marketing or promotion of the scheme involves assertions or statements guaranteeing or promising that participation in the scheme will result in returns which far exceed the returns offered in the investment market;
- (i) any aggregate public scheme that requires contributions to a pool of investment, and guarantees or promises a larger payout based on the number of persons recruited; or
- (j) any other arrangement or scheme which may be prescribed by the Commission in rules.

The Act ensures the ability to implement its provisions:

PART V (ss. 30 – 33):

Entry, Inspection and Investigation.

Empowers the Commission to investigate and obtain, or cause the production of, documents or material relevant to a financial scheme.



Section 46(2) FCSPA 2020: Offence

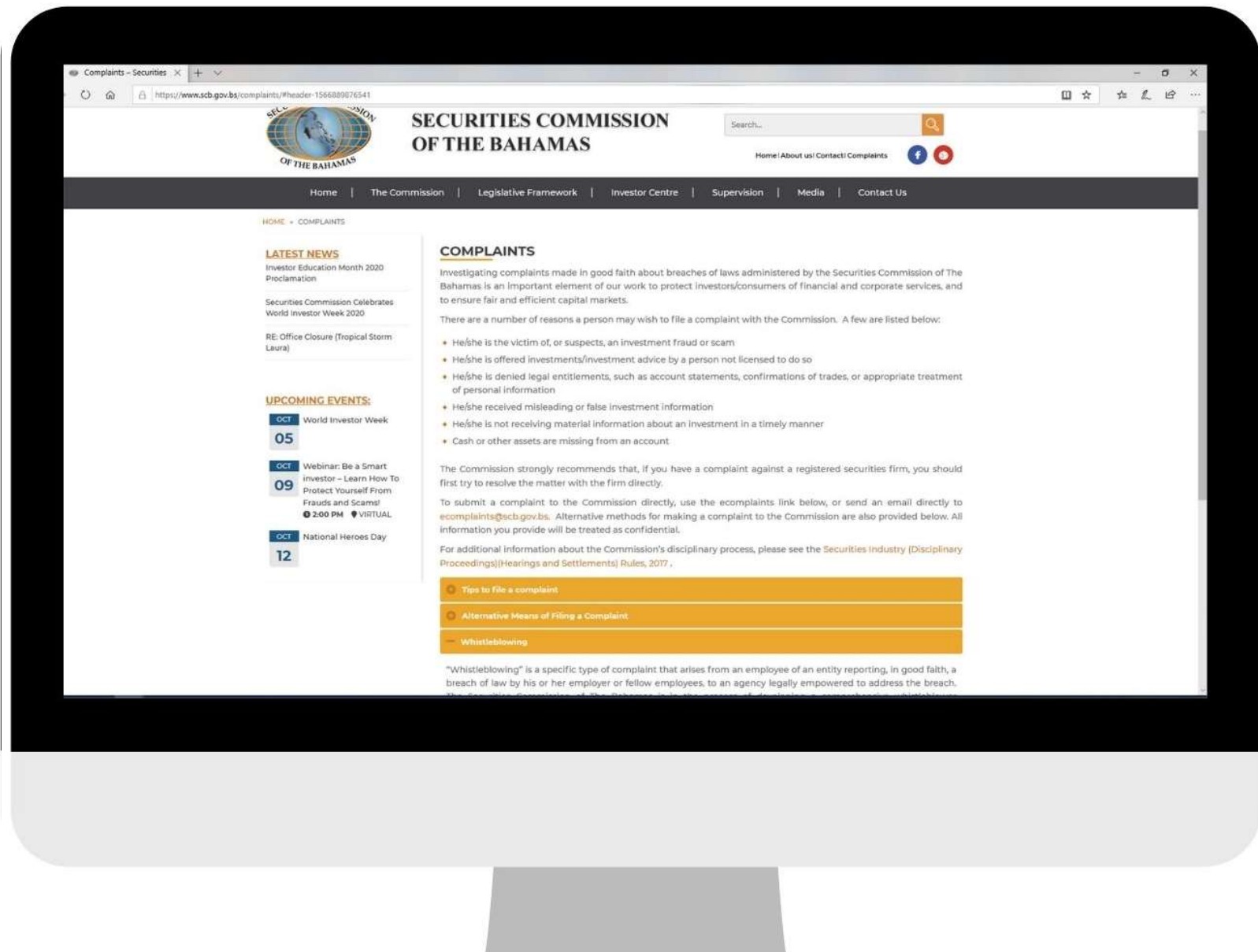
(2) Any person who –

- (a) launches or establishes, promotes, markets or advertises any financial scheme;
or
- (b) invites or recruits any other person to join or participate in any financial scheme,

commits an offence (and) is liable on summary conviction to a fine not exceeding one hundred thousand dollars.

- If it sounds too good to be true it probably is... (e.g. guaranteed and unrealistic returns).
- Be skeptical. Apply common sense. (e.g. avoid unduly complex “investments”)
- Ask questions.
- Ask more questions.
- Stay away from schemes where you have to recruit people in order to make money.
- Beware of pushy salespeople and sales tactics pressuring you to “invest now.”
- Get promises in writing.
- Do your research – Is the seller registered? Are the phone numbers real? Is there a physical place of business? Are there bad reports about the company?
- Be sure you get and check account statements for investment accounts.







Thank you!

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