

# FAIR

Canadian Foundation *for*  
Advancement *of* Investor Rights

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## **A Decade of Financial Scandals**

**FAIR Canada Calls for a National Action Plan to Tackle Investment Fraud**

Ilana Singer, Deputy Director, FAIR Canada

Conference Board of Canada - Corporate Ethics Management Council

April 14, 2011

# About FAIR Canada

- FAIR Canada is a national, non-profit organization that advocates for stronger investor protection in securities regulation.
- Run by independent Board, including:
  - Stephen Jarislowsky
  - Claude Lamoureux
  - Ellen Roseman

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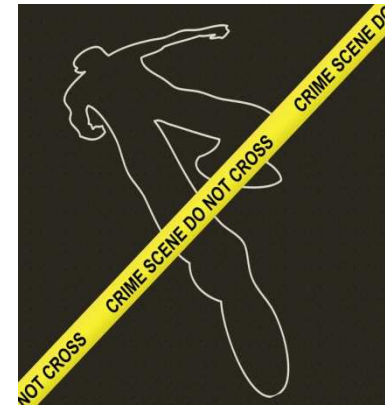
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# Overview

- **Impact on victims' lives:**
  - Devastating and irreversible
  - Loss of a significant part of, or entire, life savings
  - Affect financial, emotional, psychological and physical health and seed doubts about the security and fairness of our financial system
  - High incidences of stress, anger, depression, loss and isolation

# Financial Fraud a Major Problem

- Investment fraud is a daily event in Canada
- Number and size of frauds continues to increase
- Prevalence of frauds reduces investor confidence in capital markets



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# Effects of Fraud

- **Financial Crimes Devastate Individuals**

- One in ten Canadians say they have invested in a fraudulent scheme (CSA)
- Approx. 1.3 million have been the victim of investment fraud at some point during their lives



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# Financial Fraud a Major Problem

- FAIR Canada reviewed fifteen high profile financial frauds
- Lessons demonstrate need for:
  - (1) Improved prevention, detection and prosecution of financial fraud;
  - (2) Better investor protection and victim compensation.

**Report available at [www.faircanada.ca](http://www.faircanada.ca)**



# Complex and Fragmented System Not Effective



Investment fraud investigation and prosecution can involve dozens of agencies:

- Thirteen securities regulators
- Two national securities SROs
- Other financial regulators
- Local and provincial police
- RCMP and IMET
- Thirteen Attorneys General/Crown Attorney

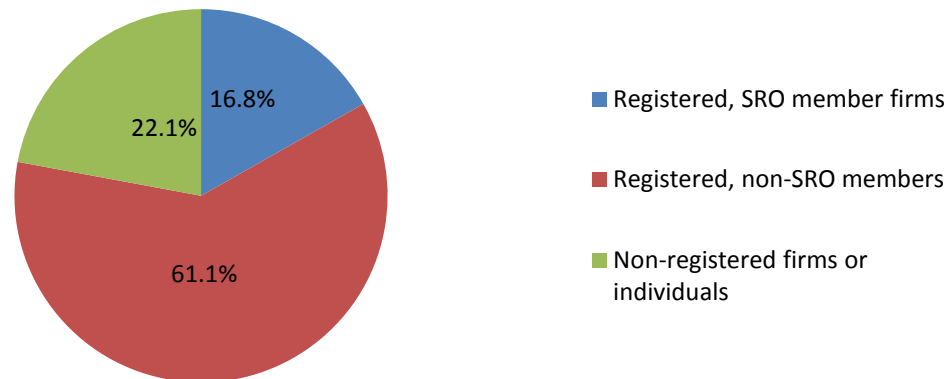
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# Findings of Cases Reviewed

- Canadians lost an estimated \$1.9 billion in the fifteen scandals reviewed:

Losses in fifteen cases reviewed





# Findings of Cases Reviewed

- Compensation funds (CIPF and IPC) only compensated 2% of the financial losses in the fifteen cases reviewed, even though most cases involved registrants
- Highest risk registrants are not SRO members and are not backed by a compensation fund
- Investors unable to understand when they have coverage.

# Recommendations

- 1. Fraud Prevention**
- 2. Earlier Detection of Financial Fraud**
- 3. Better Enforcement** leading to more effective prosecution and stronger sanctions
- 4. Improved Compensation** for victims of investment fraud

# 1. Fraud Prevention

- We encourage governments, regulators and SROs to launch a major public education campaign to educate Canadians about avoiding financial scams
  - Particular focus should be on educating vulnerable groups (e.g. seniors, immigrants, etc.)
- We recommend that regulators provide a comprehensive, plain language, “one stop” national system for the public to check registration status, background information (including proficiency and disciplinary record) and SRO membership

# 1. Fraud Prevention

- Registered firms are called upon to take responsibility for compensating clients that are victimized by a rogue advisor working for them
- Introduce professional duty for all registrants to report potential serious misconduct by another registered person
  - Professionals ( for example, lawyers) have duty to report serious misconduct
- Recommend financial incentives for members of the public who report potential financial fraud

## 2. Earlier Detection of Fraud

- FAIR Canada recommends that regulators devote dedicated resources to financial fraud detection and engage in more proactive measures to detect and prevent fraud
  - Frauds are often advertised for long periods
  - Read newspaper ads offering unrealistic returns

## 2. Earlier Detection of Fraud

- Exempt market needs reform: Amend the “exempt offering” and “accredited investor” exemptions to protect unsophisticated consumers.
- Objective confirmation of “accredited investors”?
- Audit the veracity of exempt offering filings based on a risk assessment

## 2. Earlier Detection of Fraud

- All registrants should be required to be a member of an existing SRO backed by a compensation fund
  - Result: All registrants subject to stricter SRO compliance and oversight and backed by an existing compensation fund

## 2. Earlier Detection of Fraud

- National Summit on Financial Fraud:
  - Topic: how Canada can do a better job of preventing, detecting and prosecuting investment fraud
  - Participation to include federal and provincial Attorneys General, regulators and police



## 3. Improved Enforcement

- New national fraud agency staffed by financial experts under the Federal Attorney General to target investment and other financial fraud
- National Anti-Fraud Agency must be empowered with overall responsibility for combating financial fraud

## 4. Better Compensation for Victims

- Securities regulators need consistent statutory powers to order compensation for victims
- Regulators need a clear mandate to seek compensation for victims
- Recommendation that all registrants be required to be members of an SRO and an existing compensation fund

# Support for FAIR Canada Report

1. Twelve fraud victims' groups
  - Including Earl Jones, Norshield, Mount Real
2. Small Investor Protection Association
3. Consumers Council of Canada
4. Common Front for Retirement Security
  - Members include 21 organizations, including CFRS and SIPA

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# Participant Input

Opportunity for speaker and participants to engage in discussion about recommendations, questions and comments.

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