



**ASIC**

Australian Securities & Investments Commission

**REPORT 14**

# **International cold calling investment scams**

June 2002



ASIC

Australian Securities &  
Investments Commission

# International Cold Calling Investment Scams



June 2002

“... these telemarketing  
scams have cheated many  
thousands of investors and  
have been the subject of  
international attention”

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## Background & objectives

This report examines a recent and particularly wide-reaching international scam, share investment cold calling. This scam has affected many thousands of investors and has been the subject of international regulatory attention.

ASIC is seeking to highlight the problems of investment cold calling through this report. While investment scams are not new, they are increasingly international in their scope, which poses significant challenges for regulators. The cold calling problem outlined in this report offers some important lessons that should help reduce the impact of future scams. This report offers recommendations designed to help prevent investors getting caught in these sorts, and to help regulators deal with current cold calling activity and future scams.

## What is the extent of the cold calling problem?

Since 1999, ASIC conservatively estimates that these cold calling investment scams have cost Australian investors around \$AUD400 million dollars. This is money that could otherwise have been productively invested in Australia. Although it is hard to determine accurately, global losses could be in the billions of dollars.

More than 7,300 people across Australia have contacted ASIC about a cold calling experience since 1999, and most (around 80%) have lost money. The full extent of this problem is even greater as not every case gets reported. People do not always immediately realise they have been cheated, and they may feel too embarrassed to tell anyone. ASIC has identified at least 82 cold calling firms, and that number is still rising. Often investors purchase several stocks, and some are caught in secondary scams.

## How do cold calling scams work?

Overseas cold calling operators make unsolicited phone calls, falsely claiming to be large international brokers offering shares in overseas companies to Australian consumers. Although typically based in Asia, most operators are not Asian nationals. They make false promises about the investments and use fake 'props', such as expensive documentation, to convince investors of their legitimacy. Their tactics are relatively sophisticated compared to scams such as the "Nigerian Letters". The activity of the cold callers is illegal as they perpetrate fraud on investors.

Investors receive near worthless and/or restricted shares, or no shares at all. Once investors' money leaves Australia, it is almost impossible to recover. The operators are elusive, using 'virtual offices' to mask their true size, purpose and location, although some operations have been shut down.

## **Investments offered in cold calling scams: What are they and where are they located?**

Some victims of cold calling never received shares. Others received shares in 'real' companies, but received none of the profits they were promised, and their shares instead turned out to be worthless or unsaleable. Of the real shares offered, most were stock trading on the speculative US over-the-counter (OTC) market.

OTC stocks are prone to price manipulation in the sense that they do not have an easily ascertainable market price. Retail investors in Australia can find little reliable or independent information about OTC companies, and it is alleged that some OTC companies may even be run by, or have links with, the cold calling operators. When the cold callers stop promoting their chosen OTC stocks, the stock price drops and investors lose their money and cannot sell their shares.

## **Who is being targeted by cold calling operations & why?**

All financially independent Australians are potential targets of cold calling. The best way to combat the scam is for consumers to protect themselves. Consumers need to know the risks of taking up unsolicited investment offers from unlicensed overseas organisations.

All States and Territories and both metropolitan and regional areas have been affected. Although information about the targets of cold callers remains inconclusive, ASIC's research suggested that business owners and managers were popular targets. However, cold callers targeted many other groups as well. Men are also much more likely to invest.

## **Why do some consumers fall for cold calling scams?**

While some cold calling victims have not paid sufficient heed to the warning signs in cold calling activities, ASIC's consumer research into cold calling found that the cold callers frequently went to great lengths to build a legitimate image and a trusting relationship with potential investors. Their tactics often proved successful.

ASIC found some people became suspicious because they were called out of the blue, because the offer was based offshore or because a trusted third party, such as ASIC or their financial adviser, warned them. But others saw cold calling as a legitimate sales technique, saw the offer as a convenient way to enter a lucrative market, and ignored third party warnings. Unfortunately, in some cases third parties, such as friends, actually told investors their investments would be safe.



## Action taken by ASIC and other regulators

ASIC has long been active against financial scams, such as the Australian based "Wattle" scheme and the British Marine Bank scam in the 1990s. However, dealing with overseas-based scams is very challenging. ASIC started public warnings against Asian-based cold calling activity in January 1999, in response to increasing complaints from the public. Because ASIC can enforce Australian law only in Australian courts, its main protective efforts focussed on warning people not to deal with callers. ASIC issued regular media alerts, named the cold callers and set up a special cold calling section on its FIDO consumer web site.

ASIC has encouraged action by overseas authorities and cooperated with their enforcement actions. For example, Thai authorities raided two Bangkok cold calling premises in mid 2001. ASIC helped Thai and other overseas authorities obtain statements from Australian investors for use in the Thai courts.

Although enforcement action is difficult in these cases, where cold callers visit Australia ASIC has taken enforcement action. For example, Paul Richard Bell (alias Dr Richard King), who worked for both International Asset Management (IAM) and Trident International, was restrained from leaving Australia and was subsequently convicted. ASIC also brought an injunction against Garry Zinn, a representative of Alpine Pictures Inc, whose shares were promoted by a cold calling operation.

ASIC has also conducted research to help establish why consumers fall for these scams so that it can help arm consumers against financial fraud.

## Proposals for future action

This report presents proposals for regulatory action that ASIC has developed based on its experience of these scams. These proposals are designed to better equip it and other regulators to combat the current wave of cold calling investment scams as well as scams more broadly.

### Important notes

- The cold calling anecdotes featured in this report are based on the real experiences of people who have contacted ASIC. However, in some cases, quotes have been edited for greater clarity. To ensure privacy, investors' real names have not been used.
- Because of the complex and technical nature of cold calling scams (for example the legislative impacts and financial terms), this report offers detailed Appendixes and includes a Glossary for the reader to refer to when reading the report.

ASIC will undertake the following actions, either alone or in cooperation with other organisations, to continue its work against cold calling scams.

## 1. Education and warnings

- 1a. ASIC will maintain a special cold calling section on its consumer website FIDO and promote this site actively. ASIC will look to expand existing material on cold calling about Forex (foreign exchange) trading given the rise of scams in this area.
- 1b. ASIC will direct education and warnings at investors targeted by cold callers or those most likely to fall for cold calling scams, notably small businesses and professionals and male investors. For example, ASIC will target media outlets aimed at small businesses.
- 1c. ASIC will seek to design an education project in consultation with Australian financial services industry members concerning benefits of retail investors dealing with licensed Australian entities should they wish to invest offshore and the dangers of illegal, unlicensed cold calling.

## 2. International regulatory action

- 2a. ASIC will actively promote cross-border Regulatory proposals in cooperation with its overseas counterparts, particularly in Asia. This includes enforcement action, where possible, against Australian nationals involved in cold calling scams.
- 2b. ASIC will approach US regulatory authorities to request that they review the operation of "Regulation S" and in particular that they assess the possible abuse of this regulation in a manner which facilitates cold calling.
- 2c. ASIC will approach the overseas regulatory authorities to assist in investigating possible links between overseas based investment promoters and cold calling operators.
- 2d. As well as working with agencies in countries where cold callers operate, ASIC will seek to work with agencies in jurisdictions that have been the target of cold calling scams (e.g. South Africa, New Zealand) to help facilitate cross-border action.

### 3. Domestic regulatory action

- 3a. ASIC will hold talks with Australian-based banks and other relevant financial institutions on measures that may help prevent the transfer of consumer money to overseas bank accounts known to be linked to cold calling operations. Banks and other Deposit taking institutions will be given access information concerning bank accounts known to be operated by cold calling firms. Financial institutions will be asked to consider ways in which information warning consumers about cold calling (developed by ASIC) can be distributed to customers generally, or high risk classes of customers.
- 3b. ASIC will make arrangements with Australian Federal Police and AUSTRAC to review and track cold calling activity so as to help provide early warnings about further scams.
- 3c. ASIC will contact Australian-based courier companies that distribute cold calling promotional documents to consumers to establish whether there is any mechanism for establishing the origin and/or illegality of this material.

### 4. ASIC's powers

- 4a. ASIC will propose reforms that improve its capacity to:
  - Facilitate restitution or compensation for the money sent overseas by Australian investors to cold callers
  - Obtain freezing orders in Australian courts against foreign bank accounts in which investors' money has been traced (whether or not the account contains other money) and assets acquired with the proceeds of Australian investment monies
  - Take criminal action against Australians involved in overseas cold calling operations.

These objectives may involve international cooperation and/or formal arrangements with overseas agencies to facilitate the retrieval of money and/or collection of evidence located offshore by ASIC.

"Crime follows opportunity, and opportunities for fraud flow from economic growth. The more commerce there is, the more opportunities there are to commit fraud. Nobody wants to pull the plug on electronic commerce [or] close down the stock market...just because they may be vulnerable to fraud. Rather, the challenge lies in designing systems which allow commerce to flourish while blocking opportunities for fraud. This challenges us to extend our ingenuity to counter that of villains, and to build smart systems" (Graycar and Smith, 2002: p1).

Scams and fraud, including investment fraud, are not new, and have always posed a challenge for regulators. However, ASIC is seeing increasingly diverse, sophisticated and internationalised investment scams, which mirror the growth in global commerce. This report details a recent and particularly damaging form of financial scam - overseas-based share cold calling. Since early 1999, when first alerted to the growth in the problem, ASIC has issued warnings, informed and assisted the relevant overseas authorities and, where possible, taken enforcement action. This report is part of ASIC's ongoing regulatory efforts against illegal cold calling activity. The recommended *Regulatory proposals* are designed to assist in the fight against scams more widely.

## Cold calling activity

Cold callers have found that their offers have, in recent times, found a receptive audience in Australia. It is important to consider why this has arisen. In part, it is related to the unprecedented growth in participation in investment markets by retail investors in recent years. Factors such as an ageing population, high profile sharemarket floats and compulsory superannuation have raised the average Australian's interest in investing. This development has many positives, but the swift rise in the popularity of investing has arguably not been matched by a commensurate growth in consumer knowledge. In this climate, Australian consumers are more vulnerable to scamsters intent on abusing their trust.

Cold calling is simply an unsolicited approach by sales people to consumers. Much domestically based cold calling is legal, although the recently implemented *Financial Services Reform Act 2001* prohibits or restricts cold calling activity of various types in the finance sector. The cold callers described in this report are overseas organisations that pose as large brokers/investment houses and approach investors, offering them shares in offshore companies trading in foreign markets. Their activities are conducted overwhelmingly via telephone, although supporting documentation is sent by facsimile, email and courier. Contrary to the impressive promises made by the cold callers, investors are, at best, left with deflated shares in small 'start up' companies that are unlikely to get off the ground and, at worst, are left with nothing.

Cold calling scams are not new and are not exclusive to Australia. American cold calling "Boiler Rooms" have even been the subject of movies. However, public complaints to ASIC about the recent Asian-based scams have indicated that the current incarnation is particularly successful. In Australia alone, a conservatively estimated \$AUD400 million has been sent offshore to these companies.

Australia is not the only nation affected by this recent variation of cold calling and, given the sum spent by Australian investors, global losses could be in the vicinity of billions of dollars. As a problem of international interest, it has been the focus of activities by (and cooperation between) various regulators around the world.<sup>1</sup>

## ASIC's involvement

ASIC was first alerted to the current, primarily Asian-based cold calling problem in 1999, mainly through increasing complaints received from the Australian public. People's concerns varied; from anger at the invasive persistence of cold callers, to anxiety that they could no longer contact their 'broker' and were unsure as to the status of their investment(s). As the Australian financial regulator, ASIC was concerned by the risks these scams posed to unsuspecting Australian consumers.

Unlike many of the scams ASIC was already alerting the public about, these scams appeared to be well organised and particularly convincing. For this reason, and also because the overseas nature of the operations and investments pose certain regulatory constraints, ASIC has responded to cold calling scams in a range of ways. This has included routinely warning the public via the media; setting up a detailed information section on its web site; informing relevant overseas authorities of cold calling activity in their jurisdiction; co-operating with some of these overseas authorities as part of the various investigations into specific cold calling operations; researching consumers' response to the activity; and undertaking enforcement action against suspect individuals who have come within Australian borders.

## This report

The information about the cold calling scams and proposals for further action contained in this report will help address the problem of international cold calling. ASIC recognises that it cannot fix the cold calling problem alone, and the activities of overseas authorities, other domestic regulators and in some cases financial services firms will be vital in fighting cold calling scams. Just as importantly, consumers should be provided with as much relevant information as possible about the operations and dangers of these scams so that they can protect themselves. ASIC therefore continues to seek to highlight these issues for investors through the publication of such reports.

The lessons learned by ASIC and other authorities in fighting cold calling activity will assist in dealing with future scams that have an international dimension. While this current scam is primarily Asian-based and involves the marketing of stocks, the next variant to hit Australia may be based in the US or Europe and involve some other type of offer such as currency trading.<sup>2</sup> This report provides insight into the way the scams operate, reveals the breadth of their impact on Australian consumers, and details the action taken by authorities so far. Its ultimate aim is to help protect Australian consumers and investors.

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1 See Appendix C.

2 The recent US-based Evergreen International Spot Trading scam (forex trading) that is under investigation in the US has fleeced Australian investors.

## Abstract

It is difficult to calculate the full extent of the cold calling problem. Often people take some time to realise they are being scammed and therefore do not immediately contact authorities. Although many people were alerted when, in July 2001, Thai authorities conducted raids on the premises of several cold calling brokers and ASIC representatives spoke about the issue in the general media, many more may still be unaware of the scam. Others may feel too embarrassed to contact authorities. However, at a minimum, ASIC estimates that over the past three years:

- At least \$AUD400 million has been transferred offshore in these scams over the last 3 years
- It is likely that billions of dollars worldwide have been lost on these scams
- More than 7,300 people have contacted ASIC about a cold calling experience, with a considerable majority (around 80%) having lost some money. Over 28,000 hits have been made to ASIC's FIDO web site list of cold call brokers
- Individuals who have contacted ASIC have spent between \$AUD1,500 to \$AUD3 million each in these scams, in many cases the sum of multiple investments
- People in every Australian State and Territory have been caught up in the rorts, in both regional and metropolitan areas
- At least 82 cold calling 'broker' firms have targeted Australian investors while operating primarily out of a number of Asian countries such as Thailand, Indonesia, and the Philippines
- Cold callers have offered investments in no fewer than 80 companies.

## Proliferation of cold callers

Kevin remembered this guy's voice from when The Kensington Group had approached him. He confronted him but he seemed genuine. After the raids, the caller told Kevin he'd left Kensington because they were dodgy. But now Kevin is having problems getting his share certificates from International Asset Management too.

Lou can't reach them. They've often changed their names and sound like they're hiding.

ASIC has identified 82 cold calling broker firms to date, all of which are named on the ASIC web site cold calling list.<sup>3</sup> This is not the actual number of actual cold calling operations, but rather the result of the changing guises of a smaller number of cold calling operators. Accordingly, some brokers offered people shares in the same companies, and investors have reported anomalies in caller behaviour, such as talking to a person they'd dealt with previously in a former firm. Combined, these brokers have offered shares in no less than 80 companies.

3 [www.fido.asic.gov.au](http://www.fido.asic.gov.au) (select the Cold calling: o/seas offers by phone link then *List of unlicensed overseas cold callers*). See also Appendix B.

As mentioned earlier, they have operated out of several Asian countries and, as a subsequent section of this report reveals, they have targeted people all over the globe (see section, *Who is being targeted by cold calling operations and why?*).

## Victims of cold calling

Peter was approached by five 'brokers'. He invested with all of them except one and lost about \$AUD160,000 all up, about half his assets and 15 years worth of labour. For Peter it is the worst feeling - as bad as when his Mother died when he was young.

Marcus borrowed against his mortgage for the first investment, and used the partial payment from his redundancy for the Orbit one.

## Amounts spent

The size of this scam became clearer in the wake of publicity after the raids in Thailand in July 2001. Based on the money transferred to overseas bank accounts, ASIC believes over \$AUD400 million has been spent by Australian investors in these particular scams and, though not the focus of this report, worldwide the scam may have fleeced billions of dollars. Some investors also recommended the brokers to their friends, family and/or colleagues who then took up, or shared investments. Others made the investments alone, some without the knowledge of their spouses or other family members. Individually, those who have contacted ASIC have invested between \$AUD1,500 and \$AUD3 million each. The average amount spent by investors who participated in ASIC's recent cold calling survey was \$AUD62,685.<sup>4</sup> In many cases, these 'per person' investment figures were the sum of multiple investments.

## Multiple investments<sup>5</sup>

Often investors were convinced to make several investments in several different securities and sometimes through several 'broker' companies. While some thought this was being 'safe' (because they believed they were 'diversifying' their investments), instead it only increased their overall exposure to the fraudsters. The circumstances under which multiple investments are made vary. Commonly, people make an initial investment of \$AUD5,000 to \$AUD10,000. Subsequent investments are often around \$AUD20,000 or \$AUD30,000. However, ASIC is aware of many investors who have invested several \$AUD100,000 and a few who have invested more than \$AUD1 million. These trends reveal the success of the devices cold callers employ, such as relationship building. Ironically, the very fact that investors were asked to make multiple investments further convinced some that they were dealing with genuine brokers.

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4 The sample's median investment amount was \$AUD17,114 with a range of \$AUD3,900 to \$AUD500,000.

5 For greater detail on this topic, please refer to *HOOK, LINE & SINKER: Who takes the bait in cold calling scams?* (ASIC, 2002), available from the FIDO web site: [www.fido.asic.gov.au](http://www.fido.asic.gov.au) (under the *Cold calling: overseas offers by phone* link).

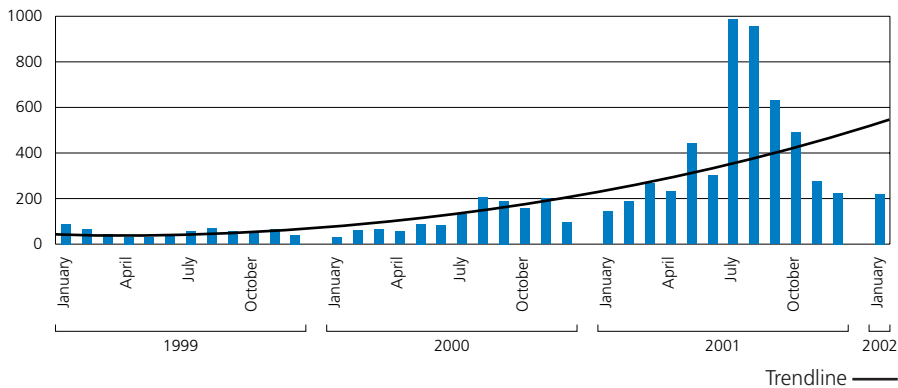
## Secondary scams<sup>6</sup>

Scammed investors are sometimes exposed to 'secondary scams'. An example is where an investor is told that a person or institution has an interest in buying their shares at a premium to the current market price (because of tax advantages for example). Investors who proceed are then told that they have to pay a fee in order to have the restriction on the shares lifted. If they send the fee, they inevitably fail to receive any funds for their shares.

## Number of victims

People who have called ASIC's Infoline about cold calling appear to fall into three main groups: many have already invested in the scams and are now concerned about their 'investments', some are looking for guidance as to whether to take up the offers, and others have rejected the offers but wish to pass on the information to assist in making others aware. ASIC has received more than 7,300 Infoline enquiries over a three year period, a figure that is undoubtedly a lower estimate of those affected by cold calling scams as it encompasses only those who contacted ASIC. The chart below demonstrates the growth in Infoline cold calling enquiries over the past three years and, in particular, reveals the sharp increase in enquiries following the publicity about the Thai boiler room raids in July and August 2001. This publicity has led to a record number of hits on ASIC's FIDO cold calling website (see section *Action by ASIC and other regulators*).

**Chart 1: Infoline queries about cold calling – monthly trends**



## Geographical spread

Every Australian State has been affected by cold calling, led by New South Wales and Victoria with 28 percent and 27 percent of cold calling complaints to ASIC respectively. Queensland (21%), Western Australia (11%), and South Australia (6%) followed, and the Australian Capital Territory, Tasmania and the Northern Territory made up the combined 6 percent remainder. Clearly the problem is of national concern and, individual losses aside, the combined sum represents a significant amount of money that could otherwise have been invested locally.

<sup>6</sup> See footnote 5.

<sup>7</sup> Based on cold calling complaints received between January 1999 and September 2001.



## Abstract

Cold calling scams – where consumers are approached "out of the blue" with impressive but fraudulent investment offers - have a long history in financial markets. The "boiler room" model for telephone-based scams is a well-recognised variant of such activities. However, unlike many previous scams of this type, and some of the other scams targeting Australian consumers, the current wave of cold calling scams are relatively sophisticated, well organised, and very widespread in their impact. Unfortunately they have proven to be ultimately convincing to many people. This causes considerable challenges for authorities when warning consumers. Contrary to 'hit and run' swindles, these scams unfold over time and can encompass multiple 'stings'. The operators use complicated information channels, relationship-building and persuasive 'props' to sustain their believable veneer of legitimacy. Although these tactics convince many investors they are real brokers and their promises are attainable, instead they bring only financial and emotional heartache. At a minimum, their illegal activities include making unsolicited investment offers through unlicensed securities dealers or advisers, and providing false and misleading information to investors about both themselves and the securities they promote. More significantly, they steal investor funds.

These fraudulent operations have caused widespread financial losses to Australian investors and their blending of illegal and legal elements makes them especially insidious. ASIC is concerned that many investors do not realise the consequences of dealing with overseas financial operations, specifically, that their means of redress when something goes wrong is severely reduced.

## Cold calling scams

The characteristics of these scams are primarily known through people who have contacted ASIC and do not necessarily represent the only (or future) techniques used by cold calling operators. For greater detail on the scam, see ASIC's research report *HOOK, LINE & SINKER: Who takes the bait in cold calling scams?* (ASIC, 2002).<sup>8</sup>

Cold calling is the practice whereby a person approaches another person they do not know, either over the phone or face-to-face, to promote or sell a product or service the person has not asked for. This can range from legitimate business people selling legitimate products, to more 'shady' operators, such as those promoting pyramid schemes.

8 Available free of charge from the FIDO web site: [www.fido.asic.gov.au](http://www.fido.asic.gov.au) (under the *Cold calling: o/seas offers by phone* link).

9 While full description is out of the scope of this document, ASIC is aware of similar scams that offer foreign currency options rather than shares in US securities. For more information on these, see [www.fido.asic.gov.au](http://www.fido.asic.gov.au) (select the *Cold calling: o/seas offers by phone* link on the right and then scroll down to Recent releases about cold calling, where you will find a link on *warning on "great opportunities" in trading foreign currency options*). For more information on the OTC market, see the Glossary.

The cold calling operations referred to in this report are those based in other countries, typically in Asia (although primarily run by non-Asian operators), and which offer investments in foreign companies. These are specific types of overseas companies, primarily those listed or listing (or allegedly listed/listing) in the volatile US over-the-counter (OTC) market.<sup>9</sup> These cold calling operations are also known as "boiler rooms".

Boiler rooms typically consist of a room of sales people who cold call potential investors, using sophisticated scripts and a range of sales techniques. The sales people take on a series of 'roles', using an array of impressive (but fake) names, titles and business addresses. Although they often claim to operate out of financial centres such as Tokyo, London and New York, their actual operations have been traced to countries such as Thailand and the Philippines. In light of the illegal nature of their activities and the large sums involved, it is perhaps not surprising that ASIC has received (unsubstantiated) allegations that these operations have links to organised crime. At the 'front end' of the operation authorities believe that some sales staff are international tourists lured by the promise of high commissions. Accordingly, Australian investors have reported callers with English, American, Australian, New Zealand, South African, Scottish, and Irish accents.<sup>10</sup>

After asking questions about the potential investor's financial needs or habits and attempting to build rapport, the cold caller (or cold callers – often there are several with varying roles) makes an investment offer. To enhance the sense of legitimacy, potential investors are couriered impressive brochures (which callers sometimes misleadingly refer to as "prospectuses") on both the broker and the companies they are being urged to invest in. ASIC intends to contact courier companies to establish whether there are means to identify delivery orders from cold calling firms.

Some people have been given phone numbers of bogus Australian referees to make them feel more at ease. However, these calls are merely transferred back to the cold calling centre. The fact that the cold callers have gone to the trouble to establish fake referrals (through unrelated office service companies in Australia) indicates the efforts they will devote to appearing legitimate.

Potential investors are also encouraged to follow links to web sites that broadcast stock trading on the OTCBB (Over-the-counter Bulletin Board)<sup>11</sup> such as Bloomberg<sup>12</sup> and NASDAQ.<sup>13</sup> These charts display share price fluctuations that can be used to mislead, and often convince the potential investor to take up the offer.<sup>14</sup>

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10 This is not an exhaustive list and is only a representation of those ASIC has spoken to. English-speaking Asian accents have also been reported, albeit often the 'main broker' has an accent consistent with those named above.

11 For more information about the OTCBB, see the Glossary.

12 Bloomberg is an international news and information organisation. For a detailed definition, see the Glossary.

13 NASDAQ stands for National Association of Securities Dealers Automated Quotation system. For a detailed definition, see the Glossary.

14 For more information about the true source of these fluctuations, please see the section *Investments offered in cold calling scams: What are they and where are they located?*

Importantly, the cold caller's efforts at authenticity do not cease at the point of investment, rather, their paperwork and constant contact often lulls investors into a false sense of security and, consequently, many take up several offers. There are many subtle variations in technique, depending on the disposition of both the caller and, more importantly, the potential investor. This opportunistic trait of cold calling operations makes the scam particularly effective.

The operators of the scam use phone and mail technology to mask their true size, location and identity. These 'virtual offices' enable the organisations to operate their scams for a finite period of time, siphoning off the returns without easily being traced. They may then open a 'new' company under a new name, with a new set of numbers and with new bank accounts, where they begin the process yet again. Investors with the 'old' company are left stranded, unable to contact their 'broker(s)'. It is often at this point that investors realise they have been scammed.

The type and degree of losses suffered by scammed investors are as varied as the methods used to convince them to invest. However, *all* investors are misled and all are invariably left with financial losses, both from the failed investment and any subsequent costs involved in trying to retrieve their money. In contrast, cold calling operations absorb the funds from one sting and move on to the next wave of investors. They also profit from this scam by not properly paying for the share allocation from the stock company, by on-selling shares to investors at an inflated price, from charging brokerage fees and/or from fleecing investors' funds directly (i.e. without ever investing the money in the first place).

## John's Story

John was contacted by International Asset Management (IAM) in September 1999. He was contacted by phone on his home number, also listed as a business number. He asked how they got his number and they said they got a listing of business names and that they do not target private names. He didn't think it was unusual that he was cold called, as he knows legitimate people use unsolicited calling methods and that this is part of our culture.

The caller was a woman with an Asian accent. She introduced the company and asked if he was interested in investing in shares. He told her he was. Although he wasn't particularly looking for an investment at that time, "you are always looking for an investment". She then asked if they could send him some documents on some companies. John wasn't bothered about legitimacy at that point because they only wanted to send him some information, so he said yes.

He received the documents by courier 3-4 days later. The brochures were on a company called ChinaNet. He looked at the documents and at the ChinaNet web site but only the main page. There was financial data there but nothing specific – the outline just had what the company was about, numbers of TV sets, and further trends of this and that.

Someone with an English accent then rang back and asked whether he had received the documents, and John said yes.

The caller's said his name was Mark Ross and he was a "manager" and "well-up" in IAM. He told John that they had researched ChinaNet for 6 months, and that this one was good to get in on because there would be some announcements, and (as a result of the announcements) the price would go up in the next 2 weeks. He suggested that they had a "close relationship" with the company and therefore had access "to some pretty good information". Mark offered a discount rate of \$US4.25 when the share was worth \$US4.50 and that's when John became interested and felt excited about it. He thought he could get a quick return on his money. He assumed he could sell the stock at any time he wanted. Mark told him to look at the web site and see how big the company is. John looked at the Bloomberg website and the company web site - and "everything kept checking out" in so far as what he was told over the phone about the company could be verified on the sites he'd been given.

Mark called John twice a day for 3-4 days, keeping him updated on the price. Mark then suggested he buy 10,000 shares but John said that this was "way out of his league". He then suggested 5000 shares. John said he couldn't afford that much so Mark asked, "how much could you afford?" John said about 1000 shares. Mark said that they didn't usually sell in blocks that small and he would have to ask his supervisor. He rang back half an hour later and told John that they had found somebody with whom he could do a "group purchase". John bought 1000 shares at \$US4.25, a total of \$AUD8,334. He telegraphed the money to a bank account in Hong Kong. Once he'd payed the money, John "felt ok". He was sent a confirmation receipt, and received a follow up phone call "welcoming him on board" and congratulating him on making a good investment.

Every 3 weeks they rang, sometimes Mark, sometimes someone else, with news of the share price, and how things were going. They reassured him. John said he had his "down times", hoping the stock wasn't down or that the companies weren't dodgy. He'd send a fax and they'd always respond with positive news. This would please and assure him. This became a cycle. In October 1999, he was contacted again, but it wasn't the same person. They explained that the previous person he spoke to, Mark Ross, had had to go to the US and this person was taking over his clients. They said the price was moving and "indicators are that it will climb steeply" and he should buy some more. The shares were offered at \$US4.80, which was "not too different" from what he originally paid, so he bought 5000 more.

After 3 months, the price of his ChinaNet shares had dropped and he got a call saying it would be wise for him to move out of his investment into another called "Attegrity", which was listed on the exchange (code ATTY).

They advised him to sell as the price being offered by the superannuation company (\$US1.50) was greater than the current market price, but that he had to buy more stock to get the deal. He checked this on Bloomberg and they were right (the current share price was at \$1.15). He felt he could cut his losses by getting into the new share, so he sold the shares and put in another \$US10,000.

Attegrity shares went to \$US6 and so he rang them and said he wanted to sell. He tried this for 2 weeks, but they were giving excuses why they couldn't sell them, trying to get enough into a parcel. They didn't sell and the shares crashed to \$US1. He then stopped asking them to sell. This is when he lost a lot of confidence in them.

About a month later, John was alerted by the press coverage of the raids in Bangkok and looked ASIC up as a result of a radio report he had heard. He didn't know of ASIC directly. He rang the Infoline and they directed him to the ASIC website where he saw IAM listed. "I was dumbfounded". He said that he tried to contact IAM but couldn't - there was a message that the telecommunications system was being upgraded - he said he was "starting to get scared".

John then rang Attegrity and spoke to the owner, Bob Wiles, and said, "he was quite OK". He asked if they had an agent in Bangkok and they said they did, but that now they had nothing to do with them. He got them to confirm the Attegrity certificate was genuine and it was. He said he felt safe because "at least the shares are real even if the caller was dodgy", although he can't sell the shares for 12 months. He then got a fax from IAM that was trying to combat bad publicity about its legitimacy. The fax advised clients to ignore any bad press.

John was recently contacted by another company who also sent a glossy pack. They weren't aware of his liaison with the first company. They offered him a similar deal. He looked into that. It was tech stock of some sort. He put them off as he had no money to spare at the time. He told them he was in a "messy situation" and was not prepared to spend more.

Before he was scammed, John had direct investments in Australian shares (AMP, CBA, Telstra) but no foreign shares or managed investments. He says he thinks his biggest mistake was that he was "busy with work at the time and didn't look into it enough". "I really did think that they were kosher – they were so professional, always had an answer for my questions, and sent all the right paperwork. It just all made sense".\*

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\* The name John is fictitious. This scenario is a cumulation of several real experiences, as recorded during an ASIC survey of complainants of cold calling scams. For this reason, some of the actions and company names may not precisely correspond with the offers indicative of the said broker company. It should be noted that the described events were manually recorded by the interviewers, rather than tape-recorded.

## Cold calling scams under Australian law

The Asian-based cold calling scams, while set up for the purpose of robbing investors, are relatively more complex than more obvious or 'typical' scams in the way they blend legal and illegal elements and different jurisdictions. As a comparison, "Nigerian Letter" schemes simply involve a one-off unsolicited letter or email that, with flimsy reasoning, asks people to send their bank account details to help offload cash or other commodities for alleged financial reward.<sup>15</sup> By contrast, in the cold calling scams some investors do become owners of shares in real companies, however worthless and deceptive the sale process used to make the investment. But regardless of these pseudo-legal elements, cold calling operations are breaking Australian law in a number of ways.

### Illegal unlicensed brokers

Brian talked to some people back in Australia before he invested and found that the company was not registered here. But this seemed like a minor thing to him and when he asked the Berkeley Samson guy about it, he told him not to worry.

Jan's daughter put her onto ASIC. She went to the ASIC web site and found they had no listing for the company. She called Infoline and got this double-checked. They confirmed the company was not registered in Australia. She was called by several people after that but she always said no to the offers. She took ASIC's advice and hung up on them each time.

Offering shares via an unsolicited phone call is illegal according to Australian law.<sup>16</sup> Further, organisations making investment offers are also acting unlawfully if they are not licensed in the country in which the people they are offering the shares to reside.<sup>17</sup>

Australia has a licensing system in place to regulate the financial industry in order to shield investors from inappropriate investment practices. Australian licensed dealers, advisers and their authorised representatives must, by law, act honestly, efficiently and fairly. If they do not, the consumer has legal rights that help protect him/her (i.e. by giving them adequate and affordable means of legal recourse if things go wrong). ASIC licensees must meet minimum educational and experience requirements, supply references, pass police checks and disclose matters that may reflect on their character or honesty. They are also subject to research, compliance and certain financial requirements.<sup>18</sup>

15 For more information on these scams, see [www.fido.asic.gov.au/](http://www.fido.asic.gov.au/) (select Scams & Swindlers and then 'Nigerian' schemes).

16 For a list of Australian laws contravened by cold calling operations, see Appendix A.

17 As above.

18 For more detail on the requirements that applied during the period talked about in this report, you can download a free copy of the *ASIC Dealers and Investment Advisers Kit*, by going to [www.asic.gov.au](http://www.asic.gov.au) (Select Licensing under Financial Services. Then select Pre AFS Licensing and Information for licensees yet to transition under the FSR Act. Select dealers and investment advisers and then scroll down to find a copy of the *Licensing kit*). For information on licensing requirements after March 11, 2002, select from the home page: Licensing under Financial Services. Then select AFS Licensing.

It is possible for consumers to check if an adviser is licensed (or authorised) by ASIC to give investment advice or deal in securities via a free Internet or hotline service that searches ASIC's register of licensed and authorised advisers.<sup>19</sup> As an example of how important it is for consumers faced with unsolicited investment offers to make these checks, ASIC is aware of instances where cold callers have falsely claimed to be registered with ASIC (a claim that would quickly be disproved, thereby revealing the scam, following a check of ASIC's database).

Not all countries have licensing systems. Each country has different regulations on investment offers and advice. However, irrespective of any overseas registration or regulation, anyone dealing in securities or providing investment advice to a retail investor in Australia must be licensed with ASIC. An individual or company not registered (i.e. licensed) in Australia may not be in an adequate position to offer advice on (or deal in) securities and may therefore not be acting in the consumer's best interests.

### **False, deceptive and/or misleading information and conduct<sup>20</sup>**

Clearly, cold calling operators mislead potential investors about the nature and intent of their operations. Though fraudulent, they behave in a way that makes them appear genuine to many potential investors (until they no longer require the façade, at which point they may cease efforts to appear legitimate and move on to the next investor). Cold caller scripts are carefully constructed to ensure callers sound genuine and the scripts indicate that country specific research about share market investments has occurred.

#### **Posing as legitimate brokers**

Mark was sent brochures, both for Brinton and for the stock companies. They also sent a few newsletters, web links and heaps of faxes and this all made it look legit. Although Mark admits he has little experience and was a little too trusting, he also thinks the links to the Bloomberg site played a big role because he could actually see the stock moving. He felt secure because the brochures matched the web sites and were professionally done. He also felt secure in that he could call them any time and they'd always return his call the same or next day. And they seemed to know what they were talking about.

Tony was given the name and number of a local (Victorian) client. This man said he'd been dealing with the company for four years and had done really well with them, that he had Rtech stocks and they were doing well. He had had no problems.

19 [www.fido.asic.gov.au/](http://www.fido.asic.gov.au/) (select the *Check ASIC's databases* link). Alternatively, the email address for ASIC's Infoline is [infoline@asic.gov.au](mailto:infoline@asic.gov.au). The phone number is 1300 300 630.

20 For a list of Australian laws contravened by cold calling operations, see Appendix A.



The cold callers put considerable effort into appearing legitimate. As a simple example, they often choose names that are identical or almost identical to well known financial firms, or that have an 'authentic sound' (see *Appendix B* for a full list). This can contribute to a false sense of reassurance on the part of the potential investor. ASIC has also been contacted by legitimate firms who are strongly concerned that their names are being used by cold calling operations.

Another example is that the cold callers sometimes claim they are registered or licensed by ASIC and/or a prospectus has been lodged with ASIC. Again, this demonstrates that they are sufficiently aware of Australian laws to wish to mislead consumers on this point. It is also a claim that not all consumers will take the trouble to check if they trust the caller or if they are unsure about how to verify this claim.

Cold callers may also do one, several or all of the following things to mislead a consumer about their legitimacy as a broker:

- Send (by courier) written brochures that resemble prospectuses and appear expensive
- Ask questions that legitimate advisers sometimes ask about the consumer's attitude toward financial risk in order to determine a 'risk profile'
- Suggest the consumer 'research' their organisation, as well as the investment companies on offer. This research includes links to impressive-looking web sites about the (broker and/or stock) companies. They also send links to NASDAQ or Bloomberg web sites, which they misleadingly infer endorses the stock when in actual fact it merely displays it<sup>21</sup>
- Offer the consumer time to "think" about the investment offer before they call again
- Imply (implicitly or explicitly) they are interested in a "long term relationship" with the consumer as a "valued client"
- Pass the investor on to more 'senior' (albeit no less fraudulent) members of their organisation to make them feel important and to lead them into further sales
- Supply the contact details of 'local' (i.e. Australian) referees who confirm the legitimacy or success of their dealings with the cold calling company (this can either involve people who dealt with the company and made 'apparent' profits (i.e. first wave clients), or 'virtual offices', where the calls appear to be local but are switched back to overseas locations without the potential investor's knowledge)
- Assume company names that sound similar to large and/or well-known legitimate financial companies
- Insinuate they have relationships with legitimate local and/or international companies

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21 For more information about the true source of the fluctuations displayed on these sites, please see the section *Investments offered in cold calling scams: What are they and where are they located?*



- Return all calls from the investor in a timely fashion (until they move onto the next wave of investors, at which point they may become difficult to contact)
- Use fancy letterhead (that displays false addresses and business titles)
- Claim they are registered/licensed with ASIC and/or a prospectus has been lodged with ASIC
- Provide receipts of payment and, in some cases, actual share certificates
- Send emails or other correspondence to investors distancing themselves from any existing investigations (some even sent out 'warnings' to investors of 'less reputable' brokers)
- Use jargon and/or company names of the market local to the person being targeted.

### Misleading securities offers

They offered Terry a 'NASDAQ listed' company that would double in price in six months. It was up there on the web site and it didn't look like a shoddy deal.

It came to the point where Paul wanted to sell the shares because he had borrowed from his family for part of it and he wanted to pay them back and buy presents for Christmas because that was coming up soon too. If he got out then he could retrieve \$AUD10,000 but they told him he couldn't sell as he had a minimum of three months. He was angry they hadn't told him this before but they were quite assertive about not selling.

In addition to falsifying their *identity*, cold callers almost always deceive the people they have called about the *investments* they are offering. As an example, if they are discussing actual start-up companies, they will suggest that the company on offer will definitely list at a certain time or by a certain date when it actually has no such plans.

They may also do one, several or all of the following:

- Offer shares in companies that they do not have
- Suggest the returns will be higher and/or faster than they will (or can) be
- Make out that the performance of the company on offer is (or will be) better than it is (or will be)
- Present their predictions about performance and/or price increases as 'guaranteed'
- Suggest the company on offer will definitely list at a certain time (or by a certain time) when it has no present (or sometimes future) intention to list
- Purport the stock is a certain type of stock (e.g. safe, liquid, NASDAQ listed) when it is not (e.g. risky, volatile, OTCBB listed)
- Not mention or underplay inherent risks associated with the type of stock they sell
- Insinuate the stock is endorsed by legitimate entities when it is not (e.g. Bloomberg)

- Claim a prospectus for the company has been lodged with ASIC (when it has not)
- Promise a refund if the stock does not perform as stated (which is not fulfilled)
- Switch between \$AUD and \$US quotes to confuse the actual investment sums required
- Suggest the transaction is insured when it is not
- Not mention important restrictions on sale of the stock
- Allude to enticements resulting from insider trading (e.g. an upcoming, yet to be made public "announcement" will affect the share price) offshore ("tax free") accounts and share discounts (some also suggest there is no prohibition on illegal activities such as insider trading in the country they claim to be based in)
- Suggest all conversations with the cold caller have been taped and that, in a previous phone call, the potential investor declared some interest in the offer and is therefore obligated to purchase
- Give the impression investors are free to sell whenever they like but refuse (or pretend) to sell when asked.

This is not to say that all cold callers use the same range of techniques (or will in the future). Furthermore, some cold callers do behave in a way that makes it clear to some people that they are not legitimate. Those who use the above-mentioned devices to convey legitimacy may also use pressure, intimidation and harassment, albeit often later on in the sale process. Whatever the technique or outcome, cold callers are acting in contravention of the law by misleading potential investors and actual investors alike.

## Consumer recourse and protection

When the scandal broke in the media, Vicky emailed Madison. A long time passed before Stephen called her and she was finally sent one of her certificates. She was also sent a declaration that they are not dodgy but are under internal audit. They told her Vincent is now in Singapore. She's emailed the other companies invested in but heard nothing.

Gary has been investing for 3-5 years and already knew of ASIC through that. He believes you learn to protect your own interests and that, not knowing the origin of the caller, except that they are not in Australia, makes you more wary. When they want you to send money overseas he thinks, 'but if something goes wrong, how do I get it back?'

Each investment made in a cold calling scam typically involves several countries. For example, an Australian investor may, on the advice of an English-sounding but Thai-based broker, who claims to be in Japan, send money to a bank account in Hong Kong to invest in a company operating out of China but trading in a US market. Understandably, the complicated multi-jurisdictional nature of these investments creates considerable obstacles for investors trying to seek redress. It is often difficult to trace the trail of the investments and almost impossible to retrieve funds. The cold callers did not always send share certificates, or even purchase shares when they said they would, or in the stock

they were supposed to invest in. Australian investors have therefore had to first track down whether they actually own the said shares with the overseas companies allegedly invested in. As part of their inquiries, many have also contacted one or several of the relevant overseas authorities, and even several local authorities (before they knew to contact ASIC). This has added to the significant expense and frustration caused by the cold callers.

Many investors in these scams did not realise the consequences of dealing with unlawful foreign operators until they reported the scam to authorities. While there are regular attempts to perpetrate investment scams in Australia, this type of stock scam is relatively unusual. Further, if investors do run into problems when dealing with Australian brokers and in local stock they have far greater access to redress. For example, they could potentially approach a range of organisations depending on this investment including ASIC (which, because of the local jurisdiction, would have greater power to act), the ASX (which has a national guarantee fund for those dealing with ASX brokers), the Financial Industry Complaints Service (FICS) and/or even the company itself through its own dispute resolution process.

ASIC enforces the laws for which it is responsible, in Australia. Even though the cold calling organisations and their representatives are acting unlawfully under Australian law, ASIC does not have extra-territorial enforcement powers that it can use in other countries. It must rely on the assistance and cooperation of regulatory and enforcement bodies in overseas jurisdictions to prevent and stop the scams in those countries. Needless to say when, and if, representatives of cold calling operations actually come to Australia, ASIC has and will continue to take all possible action necessary to enforce Australian laws.

In addition to the legal limitations on ASIC, there are a number of real practical difficulties for ASIC when prosecuting overseas operators who enter Australia. The most important of these is the fact that the identity of cold calling operators is usually very difficult to establish, particularly where the contact has been made by telephone and the operator has used an alias.

The laws and procedures of the overseas jurisdictions will also impact on ASIC's ability to assist investors in the recovery of funds. Assuming that an investor could obtain an order for repayment in Australia, then there is no certainty that an Australian order would be recognised in a foreign court or that an overseas court would grant the same recovery. This unfortunately throws responsibility back on individual investors seeking their own recourse in an overseas jurisdiction.<sup>22</sup>

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22 For more information about the difficulties in cross-jurisdictional legal action, please refer to the Enforcement action part of the *Action by ASIC and other regulators section*.

## Abstract

Most of the experiences presented to ASIC involved similar investment types, and the way the investments were presented (or misrepresented) by cold callers was also comparable. Regardless of the type of investments offered, investors often discover they do not actually own the stock they were sold, as cold callers have funnelled their money into other stock or into their own fraudulent operations. Even if investors do confirm ownership of the stock sold, they discover the stock is near worthless (or *actually* worthless), has little or no prospect of recovering its initial value and is also subject to sale restrictions. This can be especially distressing for those who have been convinced to invest in several securities. Leaving aside the fraudulent nature of cold calling operations, even if investors do end up with the stocks being promoted these are highly speculative and carry significant risks. Despite their attractive business concepts, the companies in which cold callers sell shares are invariably small operations and trade in volatile markets, making them prone to extreme price manipulation. Reliable financial information about the stocks is scarce, which allows scamsters to exaggerate their future prospects and restricts investors' access to independent assessment. Some companies may even be set up for the sole purpose of such manipulation.

## Risky US over-the-counter (OTC) stock

In ASIC's experience, almost all of the stocks that were offered to Australian cold call recipients were a part of the United States (US) over-the-counter (OTC) market, not the Australian market.<sup>23</sup> From a legal perspective, this enables the cold calling operations to circumvent Australian law, which limits options for prosecution and restitution. Because the stock is not Australian, it is not subject to Australian regulations and protections.<sup>24</sup> Further, OTC stock is particularly risky for a number of reasons, not least of which is that it is vulnerable to manipulation. It is poorly understood by, and inappropriate for, the average retail investor.

The prices of companies that trade on the US OTC market are quoted on OTC systems, such as the OTC Bulletin Board (OTCBB) and the Pink Sheets.<sup>25</sup> Although cold callers sometimes tell investors this means the stock is NASDAQ listed, it is not. OTC markets work very differently to the NASDAQ and carry far higher risks.

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23 Note that Australia (along with most countries) has OTC markets of various sorts but these are typically not readily accessible to retail investors.

- a) ASIC is also aware of an organic and eco-friendly enterprise establishing itself in Australia and a herbal medicine enterprise established in Thailand (but apparently with an Australian association) which have both been promoted by cold calling firms.
- b) Not all offers were in securities. For example, there are similar scams offering investors to trade in foreign currency options – an activity out of the scope of this document but for more information on these scams, see [www.fido.asic.gov.au](http://www.fido.asic.gov.au) (select the Cold calling: o.seas offers by phone link on the right and then scroll down to Recent releases about cold calling, where you will find a link on *warning on "great opportunities" in trading foreign currency options*).

24 As mentioned previously, although it is not possible for any regulator to offer guaranteed protection, local financial requirements and better access to legal recourse offer far greater protection than investments made in regions that fall outside these laws.

25 For more information on OTC, OTCBB and the Pink Sheets, see the Glossary.

While cold callers often refer investors to the NASDAQ or Bloomberg web sites to view the performance of a stock, these sites merely *display* the information and their visibility does not mean the stock is NASDAQ listed or endorsed.<sup>26</sup>

## The key risks associated with stocks traded in the US OTC market

There are three key risks associated with stock that is traded in OTC markets, risks that cold callers use to their advantage when fleeing investors.

### 1. Start-up companies

Roger was cautious about something he didn't know enough about. They asked him to invest \$US5,000 but he'd only spend that sort of money on a proven company like BHP, not a small unknown.

One of cold callers' most successful selling points is the alleged 'potential' of the securities they sell. However, even though the underlying concepts of some of these companies may have merit and their businesses may be legitimate, they are still small, high-risk, unproven start-up operations seeking venture capital in order to establish themselves (which they may never be able to do). Unlike companies that trade on the NASDAQ, they do not have minimum standards (for example, minimum net assets and minimum shareholders). Because of their age and size, the companies often have no proven track record. In fact, they may not even have assets, operations or actual products. Contrary to the lucrative claims made by cold callers, a high proportion of these types of companies are destined for failure rather than success. Finally, anecdotal evidence suggests that some may even be set up by cold calling operators or other scamsters for the sole purpose of fleeing investors.

### 2. Market manipulation

They told Gary they understood why he was sceptical but that they had a link to Bloomberg web site to give him and that he should check it out as the shares would jump up tomorrow. They urged him to check out the website to see if they were right.

Stocks trading in the OTCBB and Pink Sheets are prone to manipulation, often by a single market participant (also known as "market makers"), in this case the cold calling operations. Small, unlisted securities are an ideal vehicle for such manipulation because, as the Pink Sheets web site itself states, "Many OTC securities are relatively illiquid, or "thinly traded", which can enhance volatility in the share price and make it difficult for investors to buy or sell without dramatically affecting the quoted price" (Pink Sheets, 2001).<sup>27</sup> Brokers (and, importantly, the web sites to which they refer investors) quote the inflated prices, which gives potential investors the false impression that the stock is indeed lucrative (thereby confirming that the cold callers are telling the 'truth').

26 For more information on NASDAQ and Bloomberg, see the Glossary.

27 Direct address: <http://www.pinksheets.com/risk.jsp>; Manual location: [www.pinksheets.com](http://www.pinksheets.com) (then select About tab then the *Risk Warning* link at the bottom of the page).

Investors are also often told the brokers have special 'insider knowledge' that gives them access to restricted information about future price movements. Given the fact that the brokers may be manipulating the market and may be behind some of the stock companies themselves, this is not entirely untrue. Regardless, without genuine sustained interest in the stock, when the brokers cease their scam cycle, the stock price invariably plummets and has very little chance of recovery.

### **3. Lack of reliable and/or independent information**

They sent Mike a 'prospectus' but, although it had heaps of information about what the company did, it didn't have any financial information. Mike went to the Bloomberg web site at their recommendation and found that reassuring. But they didn't tell him the shares were over-the-counter or that the company wasn't actually listed.

There is little reliable and accessible information about the companies trading in OTC markets. These stocks are not necessarily required to file reports with regulatory bodies, nor do they post regular price results in public sources such as newspapers. With limited or no independent, verified or audited information about the stock (i.e. independent of the broker or the stock company), it is easier for cold callers to circulate false or exaggerated information about the securities. An investor therefore has no readily accessible independent means by which to judge the true value of the stock against the quoted price. According to the investors ASIC has talked to, the promotional information cold callers provide about the companies they recommend includes press releases, newsletters, web sites, multi-media interviews and brochures.

## **'Attractive' companies**

Aaron was very interested in the company on offer. As a practitioner of natural therapies himself, he found the idea of a detox company particularly attractive. He'd read some articles about the process and knew it worked. He was sure the company was legitimate but he forgot to check, or even imagine checking, the brokers.

Eve's business concept really got Carol in, it made sense and it was a thing of the future.

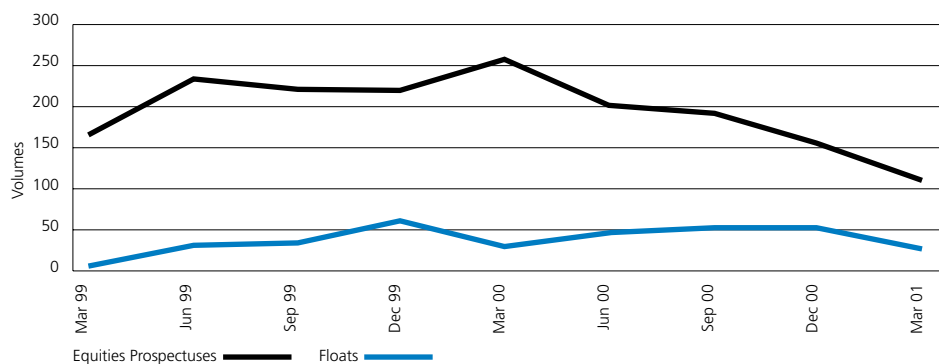
The companies cold callers promote have proved particularly alluring to Australian investors. According to the ASIC research, investors are often 'sold' on the concept of the company to be invested in, without sufficient access to (or even interest in) independent records on the company's financial status or future prospects. More alarmingly, some potential investors are so preoccupied by the potential of the stock that they neglect to check the cold calling broker's credentials.

Because they are young, the companies are often located in emerging and "exciting" sectors of industries such as technology and health (specific examples include smart card technology, biomedical research, recycling, Internet gaming, detox programs and telecommunications). Brokers pitch the companies as "cutting edge", with good ideas "just waiting to get off the ground". This makes their price projections appear attainable. Compounding this, many Australians fell prey to this scam during the well publicised 'tech stock boom' up to early 2000. This period provided cold callers with a fertile environment of spiralling stock values and unparalleled interest in new technology start-ups.

While stocks offered were almost exclusively in America, the Australian market (ASX)<sup>28</sup> gives an indication of the level of recent activity in the stock market.

### Chart 2: The 'tech stock boom' in Australia 1999 – 2000

Prospectuses Finalised (top line) and New Listings on the ASX (bottom line) by Quarter March 1999 to March 2001



Source: ASX Fact Book 2000; FloatNews.com.au; Shares Magazine; ASIC Internal Database

## Matters of timing

The caller told Alex there was going to be this press release regarding some new health product and that this would result in the stock rising from \$US2.70 to \$US10. They said they wouldn't be greedy, they'd take it out at \$US4 because that was still a good (but 'safer') return for Alex. They insinuated the information about the press release was special insider knowledge.

They told Ian it was due to float in early 2001 but it didn't. They used excuses like, 'the market isn't good, we're waiting for it to pick up' which sounded fair enough at the time.

28 For more information on the ASX, see the Glossary.

The companies in which cold calling operations choose to sell shares are almost always subject to timing issues, for example they are due to 'float' or a new 'announcement' is looming.<sup>29</sup> This enables cold callers to present an apparently feasible explanation for their promises about price gains, as well as an excuse for its deflation when the promised event does not occur. It also supports the pressured phase of their sales technique; that to get the rewards you need to act quickly or miss out. These hasty decisions are costly for investors, as they then have less time to carefully consider their actions and do proper checks on the both the broker and the investments.

## Investor payments

Joe had to wire the money to Chinanet Holdings, rather than to the broker, which he thought was reassuring at the time.

Gavin made all his payments by Telegraphic Transfer (TT). He bought two lots; one for him and one for a workmate but the first one went to a Nevada bank and the second to a Thai bank. This seemed a bit strange because both payments were for the same company. Even stranger, they ended up sending his workmate's money back, saying the company didn't want to deal with them anymore as they'd oversold some shares.

The complex trail of payments made in these scams is another sign of their complexity. As mentioned earlier, the investor, 'broker', bank account, company and market are usually based in different countries. As indicated by those already scammed, there are numerous procedures and instructions given by cold callers for where investors should transfer their funds. Some are told to open offshore accounts and place the money there. Others are asked to pay it directly into the stock company. Many are asked to deposit the money into an account supplied by the cold calling 'broker'. ASIC is currently aware of at least 20 different offshore banks that investors were asked to transfer the money to. In the case of multiple investments, the methods for depositing the money may be different with each stock invested in.

Just as the methods of payment may vary, so too may the ensuing consequences. For example, in some of the cases presented to ASIC, investors' funds never made it to the stock company, while in others they have since found they own stock but in the wrong quantity or even in a different company. Again, investors who made multiple investments often found they had a combination of these problems.

Finally, some of the stock companies have also alleged the cold calling operators did not properly pay for the share allocations they received.

ASIC will work with local financial institutions to see what measures can be taken to limit the risks of Australian investors sending their money overseas to cold callers (see *Regulatory proposals* section, proposal 3a.).

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29 Again, these claims are often made in conjunction with the suggestion of privileged insider knowledge.



## Sale restrictions

Tim tried for two weeks to sell his shares but they gave all sorts of excuses as to why they couldn't. He didn't sell and the shares crashed to \$US1. After that he stopped asking them to sell, he lost his confidence in them.

They never told Craig about any restrictions but he has since found out his shares have a 12 month sale restriction. Although he didn't ask directly (restrictions hadn't occurred to him) even the supposed owner of Chinanet TV Holdings (whom he phoned before he made the investment) didn't mention any restrictions.

The first sale restriction many investors are faced with occurs before they realise they are being scammed. These investors find that, when they try to sell (for example because they feel the share price is at a peak or because the stock value has depreciated and they wish to 'cut their losses'), the caller refuses, makes excuses or pretends they have actioned the sell order when they haven't. This is often the point at which pressure will be exerted on the consumer to move the money from the current 'investment' into a new and promising stock that the cold caller is promoting, typically with a 'top-up' required. Thus, instead of getting money back the investor may actually send more money, convinced that the new investment will perform even better for them.

The second sale restriction many investors discover often (though not always) becomes evident after they discover they have been scammed. This restriction is due to a US rule, Regulation S. According to US law, regardless of their size or the market in which they trade, if a company wishes to offer or sell securities to the public they must either register with the US Securities and Exchange Commission (SEC) or obtain an exemption from registration.<sup>30</sup> One safe harbour from registration is Regulation S. Equity securities sold by U.S. companies to offshore investors pursuant to this safe harbour are restricted, and cannot be sold back into the U.S. public markets for a one-year period. In addition, equity securities sold offshore pursuant to Regulation S must contain a legend alerting shareholders that transfer is prohibited except pursuant to Regulation S (which allows such shares to be resold in non-U.S. markets), registration under the Securities Act of 1933, or an available exemption from registration. This safe harbour is available to offers and sales of securities made outside the United States to foreign ("offshore") investors. The safe harbour is premised on the notion that purchasers of securities outside of the United States are protected by the securities laws of the jurisdiction in which they made their purchase, and do not expect the protections conferred by registration under the U.S. federal securities laws. By the time the restriction is lifted (after the one-year period), the stock's value may have depreciated and there may not be a buyer interested in purchasing. In some cases, the company invested in does not even have any present (or future) intention to list.

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30 According to the US Securities Act of 1933. For more information on the SEC, see the Glossary.

## Abstract

Australia is an attractive prospect for cold calling operations due to relative wealth of the country and an increasing interest in investing generally. In the absence of conclusive evidence revealing deliberate target groups, and given the evolving and opportunistic nature of cold calling operations, it should be assumed that all financially independent Australians are potential targets of cold calling. However, there are anecdotal indications that some groups, such as small business people and professionals, are recipients of considerable cold calling contacts. In terms of prevention and education, regardless of the actual group(s) that may be (or become) targets of cold callers, all Australians should be aware of the risks and consequences associated with taking up an unsolicited investment offer sold over the phone. The fact that other nations have also been targeted indicates cold calling operations have the potential to penetrate any society in which financial investing is of interest.

## Who cold callers choose to target

### Excerpt from real cold calling script...

3rd drop – 5,000 to 2,000

Obviously when **you** deal with **your** local broker **you** buy...

Malaysia	KLSE	Sime Darby or Tenaga!
Taiwan	Taipei Stock Exchange	Formosa Plastics or Acer Computers!
Japan	Tokyo Stock Exchange	Sony or Toyota Motors!
South Africa	Jo'burg Stock Exchange	De Beers or Nedcor!
Europe	London Stock Exchange	British Airways or British Telecom!
Australia	ASX	BHP or Telstra!
New Zealand	New Zealand Exchange	Brierley or Goodman Fielder!
Singapore	Straits	Creative Tech or DBS!

**What's your normal trading range?...**50 lots or 100 lots...

**Right?...**Get a response!

## International reach

Considering the volume of enquiries already discussed in this report, cold callers have contacted thousands of Australian investors. Based on information from international authorities, nearby regions have also been targeted, including New Zealand and Hong Kong. As shown above, at least one of the confiscated cold calling 'scripts' used by these operations indicates that other nations, as far away as Europe, have also been selected. Clearly, the problem has an international dimension.

## Nation-wide exposure

As mentioned earlier, each State and Territory in Australia has received queries from the public about cold calling, led by New South Wales, Victoria, and Queensland respectively. Furthermore, enquiries and complaints have come from people in both metropolitan and regional areas.

## ASIC cold calling survey demographics

ASIC recently conducted a small study of people contacted by cold callers, drawn from those who had reported their experience to ASIC's Infoline service.<sup>31</sup> A random sample of 80 people who were cold called was selected, 41 of which invested. It should be stressed that because the study was a sample of those who called ASIC only, it may not be fully representative of the wider population of investors and/or people cold called.<sup>32</sup>

Although it is a qualitative study, the quantitative features of the sample are detailed below.

**Table 1: Demographic characteristics of interviewees (n = 80)<sup>33</sup>**

Variable	Percentage of Investors*	Percentage of Non-investors*	Percentage of Total*
<b>Gender</b>			
Female	9.8	15.4	12.5
Male	90.2	84.6	87.5
<b>Age</b>			
20-29	7.3	0	3.8
30-39	19.5	17.9	18.8
40-49	36.6	28.2	32.5
50-59	19.5	33.3	26.3
60-69	14.6	15.4	15
70+	2.4	5.1	3.8
<b>Education</b>			
Secondary school	30	25.6	27.8
Certificate/Diploma	40	28.2	29.1
Degree	40	46.2	43
<b>Occupation</b>			
Accountant	9.8	7.7	8.8
Manager/Director	17.1	33.3	25
Own business	36.6	15.4	26.3
Other	31.7	28.2	30
Semi-retired	4.9	15.4	10

31 The full report, *HOOK, LINE & SINKER: Who takes the bait in cold calling scams?* (ASIC, 2002), is available free of charge from the FIDO web site: [www.fido.asic.gov.au](http://www.fido.asic.gov.au) (under the *Cold calling: overseas offers by phone* link). Information on the research methodology is contained within the Appendixes of that report.

32 Those less likely to call ASIC include, on the one hand people who were cold called but quickly terminated the contact having recognised the scam and on the other hand victims are too embarrassed to contact ASIC or who do not yet realise they have been scammed.

33 Although this information is divided into investors and non-investors, no formal statistical comparisons were made between these groups. Formal comparisons were not appropriate due to: (1) the non-random nature of the population (i.e. the population consisted only of people who had called ASIC, not all people contacted by cold callers); and (2) the problematic issue of defining the two groups as truly independent of each other (for example, some non-investors were potential investors, but were "saved" before they made their investment). For further detail on the method of this research, please see the Appendixes of the research report itself (details on how to obtain the report above).

<b>Income</b>			
< \$20,000	0	5.3	2.6
\$20,000 - \$39,000	2.2	13.2	17.9
\$40,000 - \$59,000	32.5	23.7	28.2
\$60,000 - \$79,000	22.5	26.3	24.4
\$80,000 - \$100,000	7.5	2.6	5.1
\$100,000+	17.5	28.9	23.1
<b>State of Residence</b>			
ACT	0	7.7	3.8
NSW	34.1	33.3	33.8
VIC	19.5	23.1	21.3
QLD	21.9	12.8	17.5
SA	9.8	5.1	7.5
WA	7.3	10.3	8.8
NT	2.4	0	1.3
TAS	0	2.6	1.3
Unknown	4.8	5.1	5
<b>Investment History</b>			
Has direct Australian shares	71	69	70
Has foreign shares	5	13	8.7

\* Proportion may not add to 100 percent due to rounding

In terms of the target group composition, although many of those targeted were business owners, there were also many interviewees from other occupations.<sup>34</sup> Survey participants were of varied age and education. They were not a homogenous group and there were no immediately identifiable subgroups, apart from one exception, that of gender.

## Gender

Of the random selection of investors who called ASIC (and notwithstanding the fact that, in a few cases, 'couples' were targeted) only 10 percent of those who invested in the scam were women. While only a reflection of this sample, it does tend to suggest that women were either less likely to be targeted, were less likely to respond to the offer, or both. This would support recent research that found that, although women are proportionately less active in the financial market, they are more successful in their investment choices (Digital Look, 2001; Fox cited BBC News Online, 2001; Graham & Warren, 2001). The women's success is in part attributed to greater caution, risk aversion and greater willingness to acknowledge lack of understanding of financial products. Further investigation into these gender differences is recommended in the ASIC research report (ASIC, 2002).

<sup>34</sup> Also, the 'other' category was very broad, including occupations such as cleaner, tradesperson, consultant and childcare professional.

## How cold callers obtain people's contact details

Alistair is self-employed so his work and home number are the same. They told him they were only ringing people with companies. They said they'd bought a list of names from the Internet from which they'd picked his name randomly.

Jacob was getting 3-4 calls a day from callers but he didn't think this was strange; he just figured his name was on some register somewhere.

Several ASIC cold calling research participants asked the cold callers how their details were obtained. They received a range of responses, including business lists, preliminary phone 'surveys', and the Internet. While some investors suspected the Yellow Pages was used (particularly in the case of managers and business owners), there was some evidence that the list was narrower than this because interviewees reported inconsistent factors such as a private number or an obscure listing in a trade only magazine. There is also anecdotal evidence that cold callers have obtained internal company telephone lists as consumers have been called at work. Some may also have used a 'snowball' technique, as several interviewees were asked to nominate friends or colleagues.

In summary, it appears that cold callers probably used a range of public and, when obtainable, private lists including commercial telemarketing lists. This is consistent with an opportunistic approach to targeting as wide a range of potential victims as possible.

## Why Australians make likely targets

Although cold calling scams are not new and investors all over the world are potential targets, it is clear that Australians are one of the key target groups of cold callers. It may be useful to consider the conditions that make Australians attractive targets of cold calling scams, in order to be aware of current and future risks to consumers.

Simon feels the worst thing about this whole thing is that he was looking to buy shares at the time. He'd tried to get onto ComSec but his PC crashed. Although he already had shares in Telstra, AXA and NRMA, there didn't seem to be enough information on how to buy shares for someone like him. So when he was called, it seemed the hard work was gone as they had come to him. He would have taken up an Australian offer if approached about one. Funnily enough, now he notices investment stuff on the TV all the time.

They asked Christian where he wanted to be in 10 years time and he said, 'retired'. They told him not to think that aim was impossible. He told them he'd need half a million dollars but the caller said, 'why not go for more!' Christian didn't believe them but can see how that would appeal to a lot of people.

The most obvious points are that Australia is a relatively wealthy country where people have funds to invest and the primary language is English, which is widely spoken by the range of nationalities involved in cold calling scams. But Australia may also be attractive to cold calling operations because

it is experiencing unprecedented interest in the investment market, an interest not necessarily matched by investor knowledge.

More than half the Australian adult population now own shares. Much of these investments take place through superannuation and managed funds, but direct share investments have become increasingly popular. Both direct and total share ownership in Australia has been ranked above other nations, including the USA, UK, and Canada (ASX, 2000). Recent local floats such as Telstra and NRMA, coupled with market and media focus on retail investing generally, have whetted Australians' appetite for investing. When Telstra was partially floated, 550,000 of the almost 2 million who purchased shares were new to the market (ASX, 1999) and the shares were obtained passively.<sup>35</sup> Much of this growth in share ownership and investment occurred in an environment of strong market growth. In this context, some investors may have an impression that investing is less risky than suggested by the longer-term historical experience of markets, although more recent market experience has been considerably more volatile.

Overall, while the financial services industry and media promote investing, its complexities and risks are typically less publicised and it would seem the rapid rise in the popularity of investing has left some gaps in consumer education. Supporting this, recent research suggests that, despite a growing number of Australians seeking professional financial advice, the average Australian's general investment knowledge is presently low (Yeow, 2002). This inexperience and reliance on others for advice is a reality in the retail investment market for some time to come, but it does mean that consumers are potentially vulnerable to scamsters.

Australians' interest in investing is in part the result concerns about income during retirement. There is a potential risk that consumers may consider cold calling approaches as legitimate investments that may contribute to their retirement. Certainly, given that the majority age groups in the ASIC cold calling research survey were people aged 40 and over, it is reasonable to assume that many of the people in the sample were planning for and/or approaching retirement and would therefore have had both the incentive and the accumulated assets required to consider such investments. Superannuation funds and retail investments aside, many Australians are yet unsure as to their source of income during imminent retirement (ABS, 1998). This uncertainty, combined with a growing interest in *early* retirement (ABS, 2000), may suggest there is a potentially well-disposed audience for international investments and for the high and fast returns promised by cold calling operations.

This risk is increasing because, due to Australia's ageing population, this potential audience is also growing in number. As the baby boomers move through the lifecycle, the proportion of the population aged 65 years or older is expected to increase to up to 22 percent by 2031, from 12 percent in 1997 (ABS, 1999). This picture of an ageing population, hoping to retire early but unsure or undecided on how to fund the desire is an alluring prospect, not only for cold calling operators, but also for scamsters more broadly. It will require a careful regulatory focus for some time.

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35 i.e. they were offered the share allocation, they did not actively seek it.

# Why do some consumers fall for cold calling scams?

## Introduction

With the aim of better understanding how some people came to trust cold callers and why others exposed to the same selling techniques refused the offers, ASIC conducted a research study into the 'demand side' of foreign investment cold calling scams. This research complements the analysis in the section, *How do cold calling scams work?*, which lists the techniques used by cold callers to convince consumers of their legitimacy and the worth of the promises they are making.

If ASIC can better understand the factors that trigger an investment, as well as the reasons why some people picked the scam, then education and warnings can be more effective and targeted and higher risk groups can be identified. Ultimately, the best protection for consumers is self-protection based on their own knowledge and ASIC aims to assist consumers to gain these skills. This section provides an abbreviated version of the key issues resulting from the research study.<sup>36</sup>

Eighty people who had been contacted by cold callers offering foreign shares and who had reported it to ASIC were interviewed about their experience. Forty-one invested over \$2.5 million and 39 did not invest. Surprisingly, apart from whether they had handed over money or not, there was little to distinguish those who had invested from those who hadn't. They were similar in terms of age, level of education and experience of investing. The scams they described were effective and sophisticated operations, they did not usually fit the 'hit and run' stereotype. Callers usually took a great deal of time and trouble to establish a trusting relationship with potential investors. They used a range of props and techniques that gave their operation(s) a veneer of legitimacy. Hence, people who were cold called often found them quite plausible.

The interviewees who identified the scam did so in a range of ways and after varying lengths of interaction with the cold callers. Warning signals to one group of people did not work for another. Hence, identifying a scam was neither guaranteed nor simple. Clearly, there is more subtlety to the cold calling rorts than might be expected by some potential victims. It is also worth remembering that many invested during a period of strong stock market performance.

### Important notes

- The full research report, HOOK, LINE & SINKER: Who takes the bait in cold calling scams? is freely available from the FIDO web site (see footnote).
- The cold calling anecdotes featured in this section are quoted direct from the researchers' notes. To ensure privacy, investor's real names have not been used.
- The method for this research is supplied in the full report.

<sup>36</sup> HOOK, LINE & SINKER: Who takes the bait in cold calling scams? (ASIC, 2002) is available free of charge from the FIDO web site: [www.fido.asic.gov.au](http://www.fido.asic.gov.au) (under the *Cold calling: o/seas offers by phone* link).

# Key findings

## The scam

A number of features of this scam distinguished it from other scams ASIC has encountered. The two main points of difference are discussed below.

### 1. Sophisticated operations

Some features of the Asian-based cold calling scams are quite similar to other scams, including other penny stock frauds, and there were of course some crude high-pressure approaches used in the scam. However, in general the techniques used in this scam to persuade people to part with their money were relatively sophisticated compared to most "investment" scams encountered by ASIC. This is especially true for a scam with this reach. Accordingly, people (investors and non-investors alike) were not necessarily immediately alerted to the scam: while a few claimed to have "known from the start", it took even the majority of non-investors a number of conversations with the cold caller before they were sufficiently convinced to reject the offer. The techniques and props used by these operations have been described in an earlier section, *How do cold calling scams work?* but some of the particularly effective practices used included:

- Emphasis on building client trust and relationship rather than merely high pressure selling. Callers returned "clients'" calls promptly and addressed their concerns
- Simulated 'chain of command' of callers where potential investors were referred and passed between "senior advisers" or "managers" and more junior administrative staff, giving the impression of a large company
- Referral to superficially impressive websites for both "broking" company and companies in which stock was apparently bought
- Referral to websites where "clients" could track the price of their stock
- Provision of paperwork including brochures, investment capacity questionnaires, confirmations of sale, tax exemption forms
- Use of referees who would reassure the potential investor that their dealings with the "broking" company had been satisfactory and that they (the company) were legitimate.

### 2. Heterogeneous targets

In terms of the targets of the scams, as mentioned above, there was little demographically to differentiate those who had invested from those who hadn't. It is also important to note that a few non-investors were almost investors except they were "saved" from investing by some external event. There were, however, a large number of people running their own business who were successfully targeted, and men were over-represented. However, caution needs to be exercised in generalising these findings, as the present group was selected only from those who contacted ASIC.



## Major themes for why people invested

### Analysis rationale

When looking at *why did some people choose to invest while others did not?* ASIC classified people into two groups:

- *People did not recognise the offer as a scam.* This group includes both people who were attracted to the offer and those not interested in the offer and includes both investors and non-investors; or
- *People recognised the offer as a scam* and therefore did not need to go any further to reject it.

That is, ASIC did not simply look at those who invested versus those who did not, but rather those who saw a scam versus those who did not. ASIC is interested in arming people so that they can recognise the real markers of legitimacy and legality in investments and thereby quickly reject callers/offers that do not meet these standards (rather than evaluate these scams as investment opportunities). ASIC was therefore interested in understanding why people invested. ASIC was also interested in understanding why certain people did not invest. As the classification above makes clear, ASIC was not interested in focusing on *all* consumers who did not invest (for example because they did not have spare funds), but rather it wished to understand the behaviour of the subset of people who did not invest because they clearly recognised the scam. Thus, the focus of the analysis was on:

- What factors alerted non-investors (and eventually investors) to the fact that it was a scam?
- How did investors interpret these factors in a way that did not alert them to the fact that it was a scam?

From the analysis described in this report, it would appear that the interviewees identified a scam in a range of ways and after varying lengths of interaction with the cold callers. Further, warning signals to one group of people were not so for another. ASIC identified five major themes that related to how people were alerted to scams:

### Theme 1: "Out of the blue"

The cold call was the first thing that sparked me off. I've never heard of broking companies cold calling people.

*Jason, 30-39, male non-investor, student*

But it didn't put him off it was just sales people and he gets five of those sorts of calls a day from telemarketers so he's used to it.

*Theo, 40-49, male investor, finance broker*

For a number of interviewees, being contacted "out of the blue" in and of itself alerted them almost immediately to the fact that the callers and their offer were not genuine. However, an interesting finding was that, although these interviewees were alarmed by the cold calling aspect, others thought of it as a legitimate and routine sales technique. In particular, because many business owners receive numerous legitimate cold calls from other types of enterprises, they did not see the practice of cold calling by the "investment" firm as unusual or a cause for caution. The sales culture of their day-to-day business dealings in effect desensitised them to being called "out of the blue" with some sort of offer.

## Theme 2: "Too good to be true"

He felt the offer was "too good to be true", too pressured and the returns were too high and too fast.

*Ethan, 70+, male non-investor, retired*

[With] Cita Biomedical the price was to rise and the detox would expand to other drugs, not just heroin. The argument as to why the price would rise made sense.

*Ian, 30-39, male investor, technical officer*

The promise of high returns in a short space of time was cited by many non-investors as a sign for them that the offer was a scam. Returns quoted by the cold callers were often 200 to 300 percent above the asking price and, although attractive, were seen by some people as "too good to be true". On this point it is clear that some investors ignored warning signs that should have made them reject the offer. It is a common observation that greed can contribute to a susceptibility to scams.

Yet many did not see high returns as indicative of a scam and it is important to go beyond the common explanation of 'greed' to understand this behaviour. While greed was a factor for some investors, these people were also able to accept the promises by explaining them away through various means. For example, some investors saw the offer as normal sales hype and/or conceived of the "investment" as a gamble dependent on luck, where the realities of market forces and business practice (and hence an evaluation of whether these would allow for the returns promised) were side-stepped. It is also important to note that a considerable number of victims were approached during or soon after the stock market boom and in particular the technology stock bubble. Thus, big returns were seen as "possible" given the spiralling prices they were reading about or hearing about in the media on a regular basis.

Finally, it is also the case that for some victims the lack of financial experience and/or numeracy contributes to a lack of understanding of what constitutes a "realistic" return.

### Theme 3: Foreign investment

Brendon's investments are in real estate so the offshore factor was alien to him - both offshore money and the fact that the money had to be sent offshore...The key things that made Brendon feel the offer could be illegitimate and the callers were untrustworthy was the overseas thing.

*Brendon, 50-59, male non-investor, sales manager*

He felt there was a subconscious attraction to the foreign stock because of the idea that globalisation equals a bigger market.

*Joe, 40-49, male investor, consultant*

A third trigger for suspicion was the foreign nature of the offer (either the stock or caller), as almost without exception, the stocks were in foreign markets (commonly the US) and the "brokers" were located overseas (typically Asia, though it should be remembered that many callers had "familiar" accents). Some people felt that being approached about overseas stocks and/or by foreign brokers was suspicious in and of itself - some supposed that if your money was overseas and something went wrong it was harder to recover. Others felt foreign investment operators were inherently worthy of distrust.

Conversely, rather than a signal for caution, other interviewees felt "foreign investment" signalled an opportunity to enter lucrative markets, to diversify their portfolios, and to branch out from the more pedestrian and limited Australian share scene. In effect, they took seriously the urgings of legitimate investment firms and advisers to diversify, but did so in a way that ultimately proved disastrous for their own financial well-being.

### Theme 4: Tests of validity

Lastly, Kyle thought it didn't add up - i.e. that, if you were on to a good thing, you would do it, not get commission and spread it around. You'd save it for yourself. Kyle said it was like the goose with the golden egg, you'd keep it!

*Kyle, 60-69, male non-investor, national manager*

On the second call they were telling him about a number of companies and were directing him to the Net. Aaron said that when you looked, "you could see where they spike" so he felt that the information they provided was legitimate, it was correct. "Seemed to be real".

*Aaron, 40-49, male non-investor, small business owner*

Interviewees who refused cold callers' offers often mentioned the illogical nature of the offer as an indication that they were not dealing with a legitimate operator. These people felt that they had tested the evidence before them and it "did not add up".

The illogical elements cited included: the structure of the offer (for example the sale of shares in blocks); the expected performance of the shares when the market indicated otherwise; and the fact that if there was so much money to be made from the shares, why were "brokers" seeking investors instead of retaining the shares for themselves? This latter point – questioning the brokers as well as the investment offer – sometimes contributed to the identification of the scam.

By contrast, many of those who invested felt that there was logic to the offer, in so far as they could see (for example) the share they had "bought" (or were offered) performing as expected (via the website recommended by the cold caller); the companies appeared to exist (which they checked through using the numbers and websites proffered by the cold callers); the concept of the stock was logical (for example smart card technology); and the callers were consistent and professional in their practices (for example they returned calls promptly and sent information when requested). What distinguished these two groups was the relevance and independence of the evidence they assessed and the degree to which they recognised their own shortcomings in terms of knowledge.

### **Theme 5: Third party advice**

Simon also talked to his brother who warned him that it was "not kosher...don't touch it". His brother had been told by his stockbroker about the schemes so Simon feels that, even if he had been genuinely interested, he would never have gone through with it.

*Simon, 60-69, male non-investor, manager*

He spoke to his accountant - he said once you send your money overseas you kiss it goodbye. He went ahead because he just had a gut feeling that it might be alright and you take risks at times.

*Elliot, 40-49, male investor, small business owner*

Finally, some of the interviewees became aware of the scam because they received advice from a third party. This third party was sometimes a friend, a relative, or more formally, an Australian investment adviser or ASIC itself. But third party advice was not always opposed to making the "investment", nor was it always heeded when it did suggest avoiding the investment. One interviewee who invested was advised by ASIC not to deal with the cold callers, but rejected that advice on the grounds of "resistance to bureaucracy". Thus, while third party advice was usually helpful, it did not always perform a protective role.

## Implications

A number of implications for future education and regulation arose out of the above findings:

1. When describing scams so consumers may recognise them, it needs to be emphasised that they may not necessarily be obvious. These cold calling operators use a range of subtle techniques and props, and legal and illegal practices to simulate legitimacy.
2. In order to establish the legitimacy of an investment offer, consumers should be encouraged to first check the credentials of those making the offer and do so through independent and reliable means. They cannot afford to rely on the information recommended by those making the offer and should seek out official sources such as government authorities to validate what they are being told.
3. There is an ongoing need to improve the financial literacy of consumers, especially given the recent surge in participation in the direct share market. Some consumers are underestimating the gaps in their knowledge and there is scope for further clarification of the legalities involved when investing and the implications of conducting business illegally.
4. The implications of investing overseas *through overseas-based firms* need to be highlighted to retail consumers, as many of those caught in the scam did not anticipate the difficulties this raised when things went wrong. Investors need to understand that investing in foreign companies and stocks can be easily undertaken through licensed Australian-based investment firms.
5. Finally, consumers are heterogeneous and are active interpreters of the information they receive. Therefore, the messages and the media through which they are conveyed need to be appropriately diverse and targeted where possible.

There is more sophistication to the cold calling rorts than may be expected by potential investors. Further, there is significant complexity in the conceptualisations of risk that people bring with them to the cold calling situation, as well as the interpretative frameworks through which they understand the information given to them both by the callers and by their own formal and informal advice networks. ASIC will, therefore, seek to ensure that where possible its warning messages are targeted to particular high risk groups and that it uses a variety of messages to hit home in order to reach scam victims.

## Proposals

As part of its work to improve financial literacy in Australia, ASIC has proposed a series of education actions to address some of the problems outlined in this section (see *Regulatory proposals* section, proposal 1.). ASIC recognises that to be most effective, it will have to target messages and also work with others when it can.

## Introduction

Taking action against scamsters has long been a feature of ASIC's work, including action against fraudsters with overseas links. Due to the challenges posed by increasingly internationalised scams, ASIC has taken a multifaceted approach to combating the problem. Preventative measures are most effective and ASIC's efforts against the current cold calling scam began with a public campaign against cold calling activity starting in January 1999, in response to a growing number of complaints from the public. ASIC used regular media alerts and its FIDO consumer web site to warn and educate the public, leading to more than 7,000 enquiries to its Infoline and almost 30,000 web hits to its list of cold calling companies alone. ASIC has taken its own enforcement action and has assisted in raids on two suspected cold calling operations and the subsequent criminal actions against those implicated. It also recently completed a research survey of some of the Australians approached by cold callers to gain a better understanding of the scam and to learn ways to better arm consumers against fraudulent operations of this kind.

International scams also require an increasingly cooperative approach. ASIC has received assistance from and provided assistance to other agencies, both in Australia and overseas, in combating this scam. In Australia, the assistance of AUSTRAC and the Australian Federal Police has been important.

## 1. Response to enquiries and complaints

Hugh tentatively agreed to the investment offered. He was also told the conversation had been recorded. Soon after, he went to the ASIC web site and saw the cold calling information. He emailed ASIC Infoline about his rights to cancel, as he was worried. Once he heard back, he rejected the offer, saying he'd passed on their details to ASIC. He wasn't pressured to pay and he never heard from them again.

Mick was getting nowhere with his share certificates, they were trying to pacify him. He called ASIC after the press reports about international cold calling. The report had the ASIC web site, which had the contact details and instructions for making a complaint. So he made a formal complaint.

### Formal response to consumers

ASIC staff have responded to more than 7,300 enquiries about cold calling since 1999 and have processed over 800 formal complaints up to September 2001 alone. In some cases, consumers called ASIC before they invested and the information they were given saved them from getting caught in the rorts, for example be being referred to ASIC's FIDO web site. Unfortunately, many of those who contact ASIC have already sent money offshore at the behest of cold callers.

These victims often contact ASIC unsure of their position and ASIC's complaints staff have become sadly adept at breaking the sombre news about the low prospect of recovery of any funds, let alone the non-existent possibility of achieving the amazing profits that many consumers have been promised by their overseas 'broker(s)'. It is important, if unfortunate, for ASIC not to unrealistically build victims' hopes of retrieving funds.

### **Formal response to cold callers**

ASIC has sent over 70 letters to cold calling firms, warning them that their activities breach Australian law.<sup>37</sup> Not surprisingly most firms do not comply, but there have been at least four instances where ASIC believes the cold calling firm ceased the activities that were of concern.

### **Additional responses**

In some cases, ASIC forwarded complaints on behalf of complainants to overseas regulators, including authorities in Thailand, Hong Kong and the Philippines. In other cases, it gave complainants the contact details required to pursue the matter themselves. ASIC has also compiled a list of cold calling complainants interested in being put in contact with other victims of the scam and has as far as practicable facilitated the contact process.

## **2. Public warnings and education**

Brogan heard an interview with an ASIC representative when the Thai raids hit the press. He called them up, they talked about his experience and then they gave him a link to the ASIC (FIDO) web site, which he checked out and found quite helpful. Although the offer had raised his suspicions, he thought others might not be so lucky, so he had decided to log his information for ASIC records, in case it might help in warning others.

Frank never intended to invest; he was just gathering information for the authorities. He already knew of ASIC as he uses the forms on the web site and finds the Gull Awards section interesting and useful because, as he is in the financial services industry, he likes to keep aware of the latest scams so he can warn his clients.

### **Media campaigns**

The best approach to the problem of cold calling is preventative, through educating and equipping consumers about this activity. As a result, ASIC has put considerable effort into alerting people through all forms of media across Australia.

ASIC representatives have been interviewed on radio, television and in the newspapers about cold calling. ASIC representatives also participated in the online chat discussion that followed a Four Corners episode on cold calling, which aired on 24 September 2001 on the ABC.

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<sup>37</sup> This report deals with the activities of firms that are not licensed overseas or in Australia to deal in securities. Instances of cold calling by overseas licensed broking firms have also occurred. In dealing with the licensed firms, warning letters have been effective to stop the activities that contravene Australian law.

ASIC has issued 17 media releases over the past three years that have warned about cold calling, ranging from warnings about unlicensed cold callers to promotion of a cold calling 'Gull of the Month' (a winning entry in the ASIC 'Gull Awards', where the public is invited to share their experiences of financial fraud and dishonesty).<sup>38</sup> In 2001 alone, ASIC was mentioned in relation to cold calling in no less than:

- 130 newspaper articles across 41 (regional and metropolitan) publications
- 14 articles across nine magazines
- 25 television reports
- 38 radio reports
- Seven web news items (not including ASIC's own web sites).

As mentioned earlier, the publicity about cold calling, particularly following the Thai raids, has led to large numbers of enquiries and complaints to ASIC, both from people already caught and those with a 'near miss' experience. These people, and others, have also been able to use ASIC's FIDO web site if they have Internet access.

ASIC has also sought to warn people about cold calling scams at the numerous public presentations it gives around Australia every year, at events such as Money Expos, ASX Open Days and other investor events.

## Website alerts and information

A section of FIDO, ASIC's consumer web site, has been dedicated to information about the risks and consequences of dealing with cold callers. This section is always kept up-to-date and is sourced by information from both consumers and overseas regulators. It includes:

- A list of cold calling firms complained about to ASIC
- Explanations of what cold calling is and advice on how to deal with cold callers
- Press releases relating to cold calling
- Contact details for overseas regulators
- Real stories about cold calling
- Instructions and contact details for how to complain to ASIC about a cold calling experience
- Advice on how to check if the securities are genuine and advisers are licensed
- Advice, press releases and alerts from overseas authorities
- Updates on new variations of the scam.

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<sup>38</sup> A list of these press releases is provided in Appendix D. To peruse the Gull Awards, go to: [www.fido.asic.gov.au](http://www.fido.asic.gov.au) (scroll down to *Gull Awards* in Hot topics section on right menu panel).



As the following two charts show, the media on the Thai raids in July and August 2002, lead to a dramatic rise in the number of visitors to the ASIC (FIDO) web site. In many cases, this was how investors first realised they had been scammed.

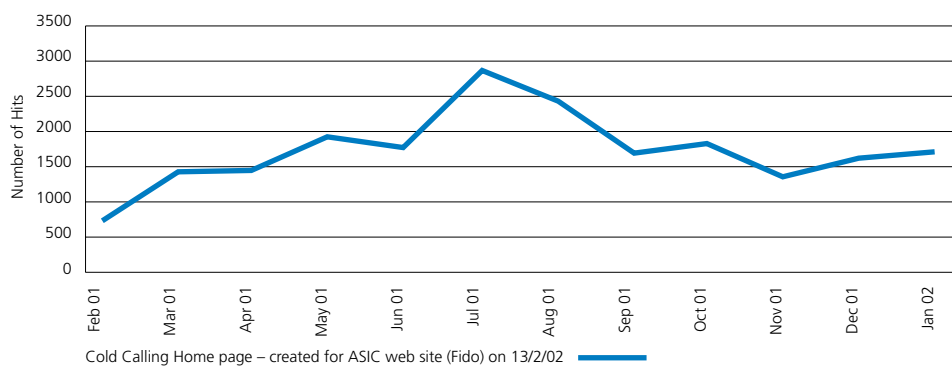
**Chart 3: Public interest in ASIC (FIDO) website's List of unlicensed overseas cold calling 'brokers'**<sup>39</sup>

Web Site Hits for 'List of Cold Callers' Section – September 2000 to January 2002



**Chart 4: Public interest in ASIC (FIDO) website's entire information section on cold calling**<sup>40</sup>

Web Site Hits for Cold Calling Home page – February 2001 to January 2002



39 To view this list go to: [www.fido.asic.gov.au](http://www.fido.asic.gov.au) (select the Cold calling: o/seas offers by phone link in the Hot topics section on the right menu panel then choose *List of unlicensed overseas cold callers* from the top of the page).

40 To view this section go to: [www.fido.asic.gov.au](http://www.fido.asic.gov.au) (scroll down and select *Cold calling: o/seas offers by phone* link in Hot topics section on right menu panel).

## Consumer research

In recognition of the seriousness of the cold calling problem, ASIC considered it a priority to investigate ways to improve its education strategies to discourage people making investments with fraudsters. In order to produce effective messages, ASIC sought to better understand how investors came to accept and trust cold callers with their money and also to understand why some people exposed to the same selling techniques refused the offers. ASIC therefore conducted a research study into the demand side of the cold calling phenomenon, as detailed in an earlier section of this report. *HOOK, LINE & SINKER: Who takes the bait in cold calling scams?* was released publicly in June 2002 and a free copy is available from the FIDO web site.<sup>41</sup> Its recommendations will be used to help equip consumers for all kinds of scams.

## Proposals

ASIC has an ongoing commitment to consumer education and warning the public about investment scams. ASIC's proposals for further education and warnings about cold calling scams in particular are available in the *Regulatory proposals* section, under proposal 1.

## 3. Ongoing work with overseas regulators

This morning at 9.00am the Securities and Exchange Commission, Thailand (SEC Thailand) in cooperation with the Royal Thai Police, the Anti-Money Laundering Office, the Immigration Bureau, the Inspection of Job Seekers Protection Division, the Australian Federal Police, and the US. FBI and Customs have conducted raids against the Brinton Group and the Benson Dupont Capital Management at two separate locations...The raids were conducted as a result of investigation following complaints from the Australian Securities and Investments Commission (ASIC), the Securities and Futures Commission, Hong Kong and the Securities Commission, New Zealand that a large number of investors, especially Australian nationals, have been solicited through telephone by salespersons based in Thailand to buy shares in another overseas market.<sup>42</sup>

ASIC acknowledges the actions taken by its overseas counterparts to combat cold calling scams and has where possible assisted overseas regulators. Examples of recent action includes:

- The Thailand Securities and Exchange Commission filed criminal complaints against five cold calling firms located in Thailand, as well as took public action that resulted in four companies ceasing their operations. In mid July 2001, Thai authorities raided several cold calling firms located in Bangkok and 84 foreigners were arrested

<sup>41</sup> [www.fido.asic.gov.au](http://www.fido.asic.gov.au) (under the Cold calling: o/seas offers by phone link).

<sup>42</sup> Press Release: "SEC Thailand and law enforcement agencies conducted raids on unlicensed companies" - The Securities and Exchange Commission, Office of the Secretary-General, No. 18/ 2001, Thursday July 26 2001.

- The Monetary Authority of Singapore brought proceeding against an unlicensed person who had been soliciting funds from Singaporean investors in relation to the latter' cold calling activities in the Philippines
- The Philippine Securities and Exchange Commission took action in mid July 2001 against 15 foreigners involved in cold calling firms operating in Manila
- Indonesia's Bapepam carried out several on the spot investigations of suspected boiler room operations in Indonesia, resulting in several firms ceasing operations
- In December 2001, the Hong Kong Securities and Futures Commission co-operated with Hong Kong Police leading to the arrest and prosecution of two suspects involved in cold calling and boiler room activities in Hong Kong.

## Helping overseas regulators

ASIC has worked productively with its overseas counterparts on the cold calling problem. ASIC also acknowledges the efforts of the Australian Federal Police and AUSTRAC on some matters.

ASIC released information obtained from complainants, informants and ASIC's own enquiries to overseas securities regulators and a number of police forces in relevant jurisdictions, including Canada, Hong Kong, Japan, New Zealand, Philippines, Thailand, The Netherlands, Singapore, South Africa and USA. As already documented, this information led to a number of raids and other action (i.e. investigations, proceedings, media releases) against cold calling operations in various jurisdictions.

ASIC also assisted the Hong Kong police in obtaining statements for their action to freeze bank accounts of Dreyfus Securities. Similarly ASIC helped the Royal Thai Police obtain statements for their prosecution of representatives of the Brinton Group, Benson Dupont, Sigama, Morgan Pacific and Osiris. Legal action is still underway on this matter.

## Requesting assistance from overseas regulators

ASIC contacted a number of overseas securities regulators to request information about cold calling firms, their bank accounts and companies whose stocks are being promoted that were allegedly located in their jurisdictions, including Canada (Ontario), China, France, Hong Kong, Japan, Philippines, Singapore, Thailand and USA.

## IOSCO initiatives

ASIC is a member of The International Organisations of Securities Commissions (IOSCO) and participates in the Technical Committee, Asia Pacific Regional Committee (APRC) and various standing committees. In June 2001, ASIC presented a paper on cold calling to the APRC meeting, where members agreed to develop a regional cold calling communications strategy and provide feedback on any enforcement action and consumer protection measures taken in relation to cold calling.

In January 2002, the Technical Committee of IOSCO met in Hong Kong and, in response to the upsurge in cold calling activities in some countries, issued an investor alert that emphasised the importance of investors' own checks (i.e. contacting their own countries' securities regulator, conducting independent research, and seeking advice from a professional adviser).<sup>43</sup> Soon after, in February 2002, an APRC meeting issued a warning and APRC Enforcement Directors resolved to look at joint enforcement initiatives.<sup>44</sup>

## Proposals

ASIC has set out a series of proposals designed to further its work with overseas agencies to combat cold calling and other scams (see *Regulatory proposals*, proposal 2.). The importance of such international cooperation will continue to grow in this area.

## 4. Enforcement action

Paul Richard Bell today pleaded guilty in the Brisbane Magistrates Court to 21 charges laid by the Australian Securities and Investments Commission (ASIC) in relation to his activities as a cold-caller operating out of Thailand and the Philippines.<sup>45</sup>

Enforcement action is particularly difficult against entities based offshore and who are readily able to move at short notice. ASIC has made substantial efforts to identify potential enforcement actions in relation to overseas operators and their local connections and has had some successful outcomes. This has involved the Australian Federal Police and AUSTRAC on some matters. Importantly, as outlined above, ASIC has also assisted overseas law enforcement agencies in gathering evidence for prosecutions in their home jurisdiction.

As described in previous sections, scams with an international element are not new and ASIC has a track record in taking action against scams where funds have been shifted offshore. In 1998, for example, ASIC successfully retrieved \$AUD2.68 million from the United Kingdom that had been sent as part of an "international bond scam" run out of Queensland. ASIC also secured in 1999 the return of funds sent by Australian investors to a Bahamas resident company under a "bank trading program" scam, again run out of Queensland. However, compared to the more recent cold calling scams, there were factors that more readily facilitated such actions. While these were both challenging cases, in both instances the promoters of these schemes were based in Australia, there were far fewer entities involved in running the schemes and the victims were relatively localised. As international schemes become more complex it is becoming more difficult to take action to retrieve funds.

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43 The full url for IOSCO's "Cold Calling" – Investor Alert is:  
<http://www.iosco.org/press/presscomm020201.html>

44 See Appendix C for an IOSCO press release about the international co-operation with regard to cold calling scams.

45 Press Release: "Cold-caller convicted" - The Australian Securities and Investments Commission (ASIC), No. 01/396 Friday, November 9, 2001.

## Action against cold calling individuals

In 1999 ASIC obtained Federal Court orders restraining Californian-based Garry William Zinn, a representative of Alpine Pictures Inc (a company whose shares had been sold through The Strategic Alliance Group, a suspected cold calling broker) from selling shares in Australia.

In 2001, acting within a very tight timeframe, ASIC obtained restraining orders against Paul Richard Bell (alias Dr Richard King), an American citizen involved in selling for several cold calling operations including International Asset Management. Bell had entered Australia for a short visit and was prevented from leaving the country, having already boarded an outward flight. He was caught with, and sentenced for, various securities offences.

## Action against cold calling operations

As mentioned, ASIC has been active in preparing statements by Australian investors to assist overseas enforcement agencies in bringing cold calling operators to justice, including:

- Statements by investors who invested through Dreyfus Securities, for the Hong Kong Police for use in the prosecution of Dreyfus and the possible freezing of bank accounts in Hong Kong held by Dreyfus and associated entities
- Statements by investors who invested through Benson Dupont, the Brinton Group and Sigama, for the Royal Thai Police for use in the prosecution of principals of those suspected cold calling firms, who were arrested in the Thai boiler room raids in Bangkok in July and August 2001.

## Investigations into Australian connections

ASIC recently accepted an enforceable undertaking from a South Australian investment adviser who acknowledged he gave information to a client about a known cold calling organisation, the Madison Group. ASIC was concerned that, in providing this information, the adviser was obviously making an inappropriate investment recommendation.

While most investments promoted by cold callers are in overseas based stocks, ASIC has looked into Australian enterprises being promoted by overseas cold callers. Some local firms had been approached by the overseas operator with a proposal to raise finance, and it may be that some of these enterprises saw this as a genuine capital-raising opportunity. However, the Australian enterprises that relied on cold calling operators to raise funds received only a fraction of the capital actually raised by the cold caller. They were also overwhelmed with investor complaints, in which investors revealed the misrepresentations and fraudulent conduct cold callers had adopted to induce them to invest in the company. For example, some investors were informed by a cold calling operator that the Australian enterprise was about to list on the local stock exchange (ASX), a claim that was completely false and unknown to the Australian enterprise. In certain circumstances, the cold caller's behaviour may leave the local enterprise liable for the misconduct.

ASIC has also looked at local "referees". It identified an Australian referee whose only presence in Australia was a virtual office. Australian investors would telephone an Australian number to speak with a "local" referee. Unbeknown to the investor, the telephone call was diverted to Thailand where the fraudulent referee was actually located. ASIC stopped this operation. In a small number of cases, other Australian referees have included early investors who were allowed to receive a limited return on their investment by the overseas cold caller and who genuinely believed in the integrity of the operator and spoke highly of them. Australian referees have been advised that, whether unwittingly or otherwise, they have been promoting organisations that are engaged in illegal activities. Consequently, they may well expose themselves to civil liability if they continue to promote or support the cold calling entities.

### Constraints on ASIC enforcement

There are significant limitations on ASIC's capacity to investigate and prosecute cold callers who prey on Australian investors from outside Australia.

- First, there is the problem of obtaining evidence from a foreign country. ASIC's statutory powers to gather evidence do not extend to evidence located in foreign jurisdictions
- Secondly, there is the difficulty of establishing the true identity of the cold callers. Often this will be impossible unless the cold callers are caught 'red-handed'
- Thirdly, there is a practical difficulty in ensuring an offender is returned to Australia so that a criminal prosecution can proceed against that person.

Additionally, there is no statutory remedy available to ASIC that will allow ASIC to obtain orders for the return of the money sent to cold callers by Australian investors. The absence of a remedy allowing ASIC to obtain restitution or compensation for investors means any action ASIC might take to freeze money or assets that can be traced to cold callers is likely to be ineffective. The absence of a remedy of this kind is compounded by the ever-present difficulties in enforcing orders against foreign bank accounts and assets. The major difficulties here are the following:

- There are limitations on ASIC obtaining orders in Australian courts that may apply to off-shore bank accounts and assets
- Limitations on ASIC taking direct action in foreign courts
- Not all foreign jurisdictions will recognise orders made by Australian courts and allow them to be enforced in the foreign jurisdiction
- Some foreign jurisdictions will not allow ASIC to take direct action in the courts of those jurisdictions.

Accordingly, ASIC's capacity to take effective action against cold callers in the jurisdictions in which they operate may depend on the local rules of that jurisdiction. As a result of these limitations, ASIC will continue to seek, in cooperation with domestic agencies and overseas authorities, appropriate powers to facilitate action against cold callers. Proposal 4. (see *Regulatory proposals* section) sets out ASIC's longer term objective of improving its powers to fight international scams.

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## List of Australian laws contravened by overseas cold calling operations

Table 2: Overseas cold calling operations' failure to comply with/contravention of Australian laws

Offence Type Description	Contraventions of/ Failure to comply with
Engaged in such activities as carrying on a securities business or investment advice business or acted as a representative of a person engaging in such a business, including the promoting, recommending, subscribing, offering or dealing of or in securities, fundraising and/or investment advice or opportunities whilst not holding a licence or a proper authority from a licensed person	[ss. 780, 781, 806, 807] <i>Corporations Act 2001</i> (or a previous corresponding provision) [ <b>NB</b> : Contraventions occurring after March 11, 2002 apply to the following sections of the <i>Financial Services Reform Act 2001</i> : ss. 911A – ss 911C ss. 916A, 916B, 916C, 916D, 916E ]
Offered, made available or otherwise promoted securities of companies that did not exist, offered made available or otherwise promoted securities or distributed application forms for the offer of securities, without disclosure documents that had been lodged with ASIC	[ss. 726, 727] <i>Corporations Act 2001</i> (or a previous corresponding provision)
Engaged in the unsolicited hawking of securities	[s. 736] <i>Corporations Act 2001</i> (or a previous corresponding provision)
Engaged in conduct that was, or provided or disseminated information that was, fraudulent, false, reckless, misleading or deceptive, or that was likely to be fraudulent, false, reckless, mislead or deceive for the purpose of inducing persons to buy, sell or retain securities	[ss. 995, 999, 1000, 1308] <i>Corporations Act 2001</i> (or a previous corresponding provision) [s. 12DA] <i>ASIC Act 2001</i> [s. 191] <i>Crimes Act (Vic)</i> [ <b>NB</b> : Contraventions occurring after March 11, 2002 apply to the following sections of the <i>Financial Services Reform Act 2001</i> : ss. 1041H, 1041E, 1041F (s. 1308 remains) s. 12DA of the <i>ASIC Act</i> remains (although sb. 12DA(1) will be repealed and replaced with a new sub-section, Schedule 1 Part 2 of the <i>FSRA</i> ) ]
Offered securities and accepted payments for such securities without intending to supply all or some of the said securities, harassed or coerced persons to buy and pay for securities and/or asserted a right to payment for unsolicited financial services in relation to the offering or dealing in securities or advice in relation to such	[ss. 12DI, 12DJ, 12DM] <i>ASIC Act 2001</i>



### List of unlicensed international cold calling firms known to ASIC to date

1. Abacus Group Co Limited
2. Allied International Investment Limited
3. Allied Pacific Ventures
4. Argus Capital Limited
5. Barrington Consultants Inc
6. Barrington Capital Ventures Ltd
7. Benson Dupont International
8. Berchmans Lee Company Inc
9. Berkeley Samson International
10. Berline Overseas Corporation
11. Bradford-Kempner Investments Ltd
12. The Brinton Group
13. Brooks Pearson Investment Limited
14. C&C Global Co Limited/Commodity and Currency Global Co Limited
15. Capital Advisory Corporation
16. Capital Assets Limited
17. Cogan Davis & Associates
18. Cohen & Nesbit Group Ltd
19. Collwood & Hall, Ltd
20. Commodity and Currency Global Co Limited
21. Crawford Peale, Inc
22. Dreyfus Securities Ltd
23. Duke's & Company Securities Inc
24. E Go Trade
25. Evergreen Consulting Corporation
26. First Chartered Capital
27. First Federal Capital
28. FL Lober Tax Consultants
29. Foreign Currency International
30. Foreign Trade International
31. Fortune International Inc
32. Freelander & Kuhn
33. General Commerce Bank AG/General Commerce Bank of Vienna
34. The Georgian Group
35. Gerson-Lehmann Inc
36. Global Asset Partners Ltd
37. Global Interactive
38. Global Option Trading Co Ltd
39. Goldberg & Partners Inc
40. Hudson International
41. International Asset Management
42. International Currency Group
43. International Exchanges Group
44. Investment Advisors & Consultants Ltd
45. JF Kidwell Limited
46. Kearns Investments Inc

47. KLM Investment Services Limited
48. The Kensington Group
49. Knowle Sachs & Company Inc
50. The Madison Group
51. Marlborough Acquisitions Inc
52. J R Matthey
53. Millenium Financial Group
54. Morgan International Investment Group Inc
55. Morgan Pacific Capital Inc
56. Muller & Sons Securities Management Inc
57. Newport Pacific Securities & Management Inc
58. Optimum Resources International Limited
59. Osiris Asia Pacific
60. Pfeiffer Galland Limited
61. Phoenix International Limited
62. Price Warner Company Ltd
63. Pryce Weston Incorporated
64. PT. Dolok Permai
65. Royce Sanford
66. Saxon & Swift
67. Sherman Brothers
68. Sigama Capital Management
69. The Strategic Alliance Group
70. Taylor Atlantic Ltd
71. Transglobal Consultants Limited
72. Trident International
73. Tri-West Invest Club
74. United Capital Management Inc
75. US Trading Associates Co Ltd
76. Vantage International Management Inc
77. Wellington International
78. Westwood Management Limited
79. Windsor Venture Securities Co Limited
80. Worldleader Investment Insider/Worldleader Investment Ltd
81. Worldwide Investment Management Corporation
82. Worldwide Investors Management Inc

**NOTE:** Cold calling firms, as described in the section, *How do cold calling scams work?*, seek in many cases to use names that are very similar to legitimate and well known investment and financial advisory firms.

**Firms named above have no relationship with any legitimate investment firms operating in Australian or other jurisdictions that share these names.** (For example, Wellington International (no. 77) is not connected in any way and should not be confused with Wellington International Management Company Pty Ltd of Level 61, MLC Centre, 19-29 Martin Place, Sydney, NSW, which is a registered securities dealer (ASIC licence number 187915), nor with its parent company Wellington Management Company, LLP).

## IOSCO press release about international cold calling

### "Asia-Pacific Regional Committee"

#### Asia-Pacific Securities Regulators Reinforce Commitment to Greater Co-operation

4 February 2002

Securities regulators from the IOSCO Asia Pacific Regional Committee (IOSCO APRC) today reiterated their commitment to greater regional co-operation in the regulation of the capital markets. Particular focus was given to the enhancement of co-operation, mutual assistance and information-sharing in the enforcement of illegal securities activities. The regulators, comprising Chairs and senior officials of capital market regulatory authorities, were in Bali, Indonesia at the meeting of the IOSCO APRC held on 4 February 2002. The meeting, which was hosted by the Capital Market Supervisory Agency of Indonesia ("Bapepam"), saw various issues raised on international co-operation and enforcement most notably the developments so far in fighting the proliferation of cold calling scams in the region.

"The region's growth and attraction with regards to its capital market activities is very much dependent on the credibility of its regulators and our ability to work together towards common goals objectives and regulatory standards", said the IOSCO APRC Chairman Datuk Ali Abdul Kadir, who is also the Chairman of the Malaysian Securities Commission. He further stressed the need for enhanced co-operation in the light of the recent events of September 11.

The need for regional co-operation was reiterated by Bapepam Chairman Mr. Herwidayatmo, who said that "such arrangements will maximize the positive

aspect of globalization on one hand and at the same time minimize its negative impact on the other. This in turn will lead to a great contribution towards the achievement of the three objective of securities regulation, namely: protecting investors; ensuring fair, efficient, and transparent markets; and reducing systemic risk."

The IOSCO APRC discussed the viability of exploring further measures towards enhanced regulatory co-operation. The IOSCO APRC had previously discussed a regional multilateral memorandum of understanding ("MOU") amongst APRC members. However, since then, as a result of the events of September 11, IOSCO established a Special Project Team on co-operation, which is developing an IOSCO-wide multilateral MOU. The APRC is contributing to the work of the IOSCO Special Project Team and will further consider its regional MOU initiative in light of developments of the IOSCO-wide MOU.

The IOSCO APRC also discussed areas of co-operation to counter cross-border cold calling and boiler room schemes operating in the region. In this regard, the IOSCO APRC is formulating a regional approach in combating these illegal operations, which have affected investors in the region. This mutual assistance has led to a number of charges against persons involved in such activities (see the attachment for details). Many countries in the region have also issued investor alerts to prevent the investing public from falling prey to these scams. In addition, the meeting agreed, to the extent permissible under local laws, to publish the names of unlicensed operators operating within their jurisdictions. This strategy has proved very useful in warning investors about known cold calling organizations.

Two new areas of work have been proposed, on the regulation of remote

access terminals in the region and investor recourse and safeguards. Remote access terminals are trading terminals, which are placed by exchange or markets outside their own countries to provide overseas investors with direct access to their systems. The IOSCO APRC regulators agreed to provide feedback on their own regulatory approaches to such systems in order that experiences and lessons could be shared.

The IOSCO APRC Enforcement Directors also met concurrently in Bali. This meeting, chaired by Bapepam, acknowledged the increased significance of the role of Securities regulators after the events of September 11. In particular the Enforcement Directors discussed the issue of money laundering within the securities regulatory framework and its relationship with the funding of terrorist activities. Members expressed their views as to the important role capital market regulators play in this area. Other matters discussed included the range of enforcement actions available in addition to criminal prosecution to ensure more effective and efficient enforcement of securities laws.

The APRC, one of the four regional committees of IOSCO consists of 22 members from 19 jurisdictions namely Australia, Bangladesh, China, Hong Kong, India, Indonesia, Japan, Korea, Kyrgyz Republic, New Zealand, Pakistan, Papua New Guinea, the Philippines, Singapore, Sri Lanka, Taiwan, Thailand, Vietnam and Malaysia.

IOSCO is a world-wide forum for securities regulators that addresses issues and demands related to the regulation of securities and futures markets. Regulators from more than one hundred jurisdictions are members of IOSCO.

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## Attachment

Enforcement action taken by APRC members include:

The Thailand Securities and Exchange Commission filed criminal complaints against five cold calling firms located in Thailand; as well as took public action that resulted in four companies ceasing their operations. In mid July 2001, Thai authorities raided several cold calling firms located in Bangkok, and 84 foreigners were arrested.

The Monetary Authority of Singapore brought proceeding against an unlicensed person who had been soliciting funds from Singaporean investors in relation to the latter' cold calling activities in the Philippines.

The Philippine Securities and Exchange Commission took action in mid July 2001 against 15 foreigners involved in cold calling firms operating in Manila.

Indonesia's Bapepam carried out several on the spot investigations of suspected boiler room operations in Indonesia, resulting in several firms ceasing operations.

In late 2001, the Australian Securities and Investments Commission successfully obtained a court order preventing a suspected cold caller from leaving Australia. In a subsequent hearing, the suspect pleaded guilty to 21 charges of unlicensed securities dealing and securities hawking in Australia, relating to his cold calling activities in Thailand and the Philippines. He received two six month sentences, as well as a fine.

In December 2001, the Hong Kong Securities and Futures Commission co-operated with Hong Kong Police leading to the arrest and prosecution of two suspects involved in cold calling and boiler room activities in Hong Kong."

## List of press releases issued by ASIC about cold calling

Table 3: ASIC Press Releases about cold calling

REF NUMBER	TITLE	RELEASE DATE
MR 99/8	International phone calls leave consumers cold and cashless	17 January 1999
MR 99/39	ASIC cold calling campaign helps save investors' money	20 February 1999
MR 99/69	Free investment advice seminar for Seniors' Week	19 March 1999
MR 99/120	ASIC restrains representative of cold calling company as they arrive in Australia	29 April 1999
MR 99/149	ASIC launches "Gull" awards – true tales of gullibility	19 May 1999
MR 99/238	Australians hit by second round of cold calling	15 July 1999
MR 99/362	Cold calling	11 October 1999
MR 99/445	Listening to ASIC can save you money	29 November 1999
MR 00/261	NT consumer watchdogs warn overseas share sellers	19 June 2000
MR 00/290	ASIC's Gull of the Month is a bit on the nose!	11 July 2000
MR 00/332	Cold callers continue to illegally target Australian investors	7 August 2000
MR 01/24	Give cold-callers the cold shoulder!	1 February 2001
MR 01/147	Philippine SEC calls for information on cold callers	9 May 2001
MR 01/263	ASIC welcomes cold calling action	27 July 2001
MR 01/342	International cold-calling scam – ASIC welcomes Thai visit and warns of follow-up scams	24 September 2001
MR 01/361	ASIC obtains court order against cold caller	4 October 2001
MR 01/396	Cold-caller convicted	9 November 2001
MR 02/72	SA investment advisor provides enforceable undertaking after cold calling losses	1 March 2002

Note: These are all available from the ASIC web site ([www.asic.gov.au](http://www.asic.gov.au) – under *Publications/Media & information releases*).

## Information about ASIC

### ASIC

#### Description

ASIC stands for Australian Securities and Investments Commission. ASIC is one of three Commonwealth government bodies that regulate financial services in Australia. ASIC is the single national regulator of Australia's 1.2 million companies. ASIC's role is to:

- Protect investors, superannuants, depositors and insurance policy holders. For more information about ASIC's consumer protection role, go to FIDO, ASIC's website for consumers and investors
- Regulate and enforce laws that promote honesty and fairness in financial markets, products and services and in Australian companies
- Underpin the strength, growth and international reputation of Australia's financial markets
- Maintain a public database on Australia's 1.2 million companies to provide certainty in commercial dealings, and
- Work with other financial, consumer and law enforcement bodies in Australia and internationally.

#### Further Information

- [www.asic.gov.au](http://www.asic.gov.au)

- [www.fido.asic.gov.au](http://www.fido.asic.gov.au)

Of specific interest:

- **ASIC's consumer role**

(<http://fido.asic.gov.au/fido/fido.nsf/byheadline/ASIC's+consumer+role?openDocument>)

[www.fido.asic.gov.au](http://www.fido.asic.gov.au) (scroll down to *ASIC's consumer role* on right menu panel)

- **ASIC at a glance**

(<http://www.asic.gov.au/asic/asic.nsf/byheadline/ASIC+at+a+glance?opendocument>)

[www.asic.gov.au](http://www.asic.gov.au) (scroll down to About ASIC on left menu panel then select *ASIC at a glance*)

- **Cold Calling information**

('Cold calling: o/seas offers by phone')

(<http://www.fido.asic.gov.au/fido/fido.nsf/byheadline/Cold+calling?opendocument>)

[www.fido.asic.gov.au](http://www.fido.asic.gov.au) (scroll down to *Cold calling: o/seas offers by phone* link in Hot topics section on right menu panel)

- **Licensing and registration requirements for dealers and investment advisers**

[www.asic.gov.au](http://www.asic.gov.au) (Select Licensing under Financial Services. Then select Pre AFS Licensing and Information for licensees yet to transition under the FSR Act. Select dealers and investment advisers and then scroll down to find a copy of the Licensing kit). For information on licensing requirements after March 11, 2002, select from the home page: Licensing under Financial Services. Then select *AFS Licensing*.

- **Prospectuses**

(<http://fido.asic.gov.au/fido/fido.nsf/byheadline/Prospectuses?opendocument>)

[www.fido.asic.gov.au](http://www.fido.asic.gov.au) (Select the Shares link on the left of the page, then select *Company Prospectuses* under the Getting information about a company heading in the top right slice of the table)

- **Investing basics**

(<http://fido.asic.gov.au/fido/fido.nsf/HeadingPagesDisplay/Investing+Basics?OpenDocument>)

[www.fido.asic.gov.au](http://www.fido.asic.gov.au) (Select the *Investing basics* link on the left of the page)

- **Investing in shares**

(<http://fido.asic.gov.au/fido/fido.nsf/HeadingPagesDisplay/Shares?OpenDocument>)

[www.fido.asic.gov.au](http://www.fido.asic.gov.au) (Select the *Shares* link on the left of the page)

## FIDO

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### Description

FIDO is ASIC's special web site for consumers and investors. It is separate to (but available from) ASIC's main web site. It offers useful and easily explained information on all sorts of consumer issues, such as:

- Scam warnings, tips and tricks on things like investing and superannuation
- Links to check ASIC's various databases (for example to see if a person is licensed, a company is registered in Australia, or a prospectus has been lodged)
- Instructions on how to complain to ASIC about suspect financial matters.

The site is designed to be user friendly and even offers a free monthly email newsletter service (called FIDO News), updating consumers on latest warnings, tips and information about investments, superannuation, insurance and deposit accounts.

### Further Information

- [www.fido.asic.gov.au](http://www.fido.asic.gov.au)
- Or, to access via the ASIC web site ([www.asic.gov.au](http://www.asic.gov.au)), just click on the top right grey area that says "visit FIDO our consumer site"

## Infoline

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### Description

Infoline is ASIC's free phone or email service that provides information:

- About ASIC policy and procedures; company administration; and other regulatory and enforcement issues
- For consumers about financial services and products (except lending). Information on investors' rights.

### Further Information

- [www.asic.gov.au](http://www.asic.gov.au) (choose the *Contact Us* link)
- To contact Infoline:

Email: [infoline@asic.gov.au](mailto:infoline@asic.gov.au) or Phone: 1300 300 630

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Term	Description	Sources and/or Further Information <sup>46</sup>
ASX	ASX stands for Australian Stock Exchange. The ASX operates Australia's primary national stock exchange (or 'stock market') for equities, derivatives and fixed interest securities. It also provides market data and information to a range of users. Specialised information technology systems underlie these operations.	<a href="http://www.asx.com.au">www.asx.com.au</a>
Bloomberg	Bloomberg is an international news and information organisation that provides online news, data and analysis to the business community and media outlets. Bloomberg provides real-time pricing, historical pricing, indicative data, analytics and electronic communications 24 hours a day through its 'Bloomberg Professional' service.	<a href="http://www.bloomberg.com">www.bloomberg.com</a>
Broker	An individual or firm who transacts on behalf of a buyer or a seller, usually charging a commission.	<a href="http://www.asic.gov.au">www.asic.gov.au</a> <a href="http://www.sec.gov">www.sec.gov</a>
Brokerage	The commission (fee) charged by the broker	<a href="http://www.fido.asic.gov.au">www.fido.asic.gov.au</a> <a href="http://www.asx.com.au">www.asx.com.au</a>
IOSCO	IOSCO stands for International Organisation of Securities Commissions. IOSCO is an international assembly of securities market regulators. Its current membership encompasses regulatory bodies from 91 countries (including ASIC), all of which have day-to-day responsibility for securities regulation and the administration of securities laws.	<a href="http://www.iosco.org">www.iosco.org</a>
IPO	IPO stands for Initial Public Offering. This involves a company listing on a stock exchange and offering sale of its stock to the public for the first time. Companies making an IPO are seeking new public capital for their equity.	<a href="http://www.asic.gov.au">www.asic.gov.au</a> <a href="http://www.sec.gov">www.sec.gov</a>
Liquidity	The liquidity of a stock refers to the volume of transactions in that stock. Low liquidity leads to wide bid/offer spreads and hence could lead to large price fluctuations. High liquidity tends to minimise overall transactions costs.	<a href="http://www.investor.nasdaq.com">www.investor.nasdaq.com</a> <a href="http://www.asx.com.au">www.asx.com.au</a>
Market maker	A broker/dealer who provides liquidity in a given security by being both a buyer and a seller (at different prices) at the same time. The market maker's bid/offer spread allows opportunities for profit as reward for risk taking.	<a href="http://www.investor.nasdaq.com">www.investor.nasdaq.com</a> <a href="http://www.nyse.com">www.nyse.com</a> <a href="http://www.nasdaq.com">www.nasdaq.com</a>
NASDAQ	NASDAQ stands for 'National Association of Securities Dealers Automated Quotation' system. It is the NASDAQ Stock Market's computer-screen trading system and enables people to trade by computer from wherever they are located. The NASDAQ Stock Market is a major national and international stock market that uses computers and telecommunications for the trading and surveillance of thousands of securities. It is built on a system of competing 'Market Maker' firms that list specific prices for the sale or purchase of securities. The NASDAQ is overseen by NASD – the National Association of Securities Dealers. NASD is the largest self-regulatory organisation for the securities industry in the United States and is responsible for the operation and regulation of NASDAQ and the over-the-counter securities markets.	<a href="http://www.investor.nasdaq.com">www.investor.nasdaq.com</a> <a href="http://www.nasdaq.com">www.nasdaq.com</a>

<sup>46</sup> Please note that the URL links provided in this Glossary (and in the report generally) may change over time. In most cases, web sites have search facilities – use these to locate the relevant information if the URLs become outdated.



Term	Description	Sources and/or Further Information
OTC (US)	OTC stands for over-the-counter and refer to US securities that are not listed or traded on an organised exchange and are therefore not governed by the same SEC reporting requirements as companies that list on organised exchanges such as the NASDAQ are. The securities that trade in this market are usually start-up companies (therefore new, small and low priced) looking to raise the funds to start or build upon existing operations. The OTC market is much smaller and more volatile than larger markets such as the NASDAQ.	<a href="http://www.sec.gov">www.sec.gov</a> <a href="http://www.investor.nasdaq.com">www.investor.nasdaq.com</a>
OTCBB	OTCBB stands for OTC Bulletin Board and is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in US over-the-counter (OTC) equity securities. OTCBB securities include national, regional, and foreign equity issues, warrants, units, American Depositary Receipts (ADRs), and Direct Participation Programs (DPPs). The OTCBB is a quotation medium for subscribing members, not an issuer listing service, and <b>should not be confused with the NASDAQ Stock Market</b> . Thus, although NASD oversees the OTCBB, it is not a part of the NASDAQ Stock Market. OTCBB securities are traded by a community of Market Makers that enter quotes and trade reports through a sophisticated, closed computer network, which is accessed through NASDAQ Workstation II (a computerised trading tool that provides access to all NASDAQ markets for Market Makers, brokers, and institutions).	<a href="http://www.sec.gov/answers/otcbb.htm">www.sec.gov/answers/otcbb.htm</a> <a href="http://www.sec.gov/investor/pubs/microcapstock.htm">www.sec.gov/investor/pubs/microcapstock.htm</a> <a href="http://www.investor.nasdaq.com">www.investor.nasdaq.com</a> <a href="http://www.otcbb.com">www.otcbb.com</a>
Pink Sheets	Similar to the OTCBB, Pink Sheets is an electronic quotation and information service through which broker dealers firms may deal in OTC securities. It is NOT a Securities and Exchange Commission (SEC) Registered Stock Exchange or a NASD Broker/Dealer. <b>It has no affiliation with either NASD or the NASDAQ Stock Market.</b>	<a href="http://www.sec.gov/investor/pubs/microcapstock.htm">www.sec.gov/investor/pubs/microcapstock.htm</a> <a href="http://www.investor.nasdaq.com">www.investor.nasdaq.com</a> <a href="http://www.pinksheets.com/risk.jsp">www.pinksheets.com/risk.jsp</a>
Prospectus	The formal document that must usually be issued by a company or fund seeking to raise money from the public. It should provide the details of the financial and management status of the company or fund. In Australia, a prospectus is required by the Corporations Act to contain all the information a consumer or professional adviser would need to make an informed investment decision about the company. It must clearly disclose any risks associated with the investment. In Australia, prospectuses are lodged with ASIC.	<a href="http://www.asic.gov.au">www.asic.gov.au</a> <a href="http://www.fido.asic.gov.au">www.fido.asic.gov.au</a>

Term	Description	Sources and/or Further Information
Regulation S	If a US company wishes to offer or sell securities to the public they must either register with the SEC or obtain an exemption (according to the US Securities Act of 1933). One of these exemptions is Regulation S. Regulation S means companies do not have to register stock they sell outside the US to foreign ("offshore") investors. This means the usual protections offered to investors by the registration of securities is bypassed. To help counteract abuse of this exemption, the SEC issued a new rule (Rule 144) that any stock placed offshore (i.e. outside US) under Regulation S will be classified as "restricted securities". This means resale without registration or an exemption from registration will be restricted - i.e. the shares cannot be resold back into the US market for 12 months and/or under certain conditions.	<a href="http://www.sec.gov/rules/final/33-7505.htm">www.sec.gov/rules/final/33-7505.htm</a> <a href="http://www.sec.gov/rules/final/33-7505a.htm">www.sec.gov/rules/final/33-7505a.htm</a> <a href="http://www.sec.gov/answers/restric.htm">www.sec.gov/answers/restric.htm</a>
SEC (US)	SEC stands for Securities and Exchange Commission. This is the US financial regulator. It is a federal agency that was created by the Securities Exchange Act of 1934 to administer that act and the Securities Act of 1933. The laws administered by the SEC are designed to promote full public disclosure and protect the investing public against fraudulent and manipulative practices in the securities markets.	<a href="http://www.sec.gov">www.sec.gov</a>
Share certificate	A share certificate is a document issued when a person purchases shares in a company. It is written proof that the person is a registered holder of a certain number of shares. In Australia, share certificates have been replaced by CHESS (Clearing House Electronic Settlement System) holdings registrations.	<a href="http://www.asx.com.au">www.asx.com.au</a>
Shares (also referred to as 'stock')	Shares signify a partial ownership of a company. If, for example, a company has issued a million shares and you own ten thousand shares in it, then you own one percent of the company. As a part owner of a company, you participate in ownership of the assets and in the future earnings of the company.	<a href="http://www.asic.gov.au">www.asic.gov.au</a> <a href="http://www.asx.com.au">www.asx.com.au</a> <a href="http://www.sec.gov">www.sec.gov</a>
Speculative	A speculative deal involves taking a big risk, but deliberately so, in the hope of making an extraordinary gain.	<a href="http://www.asic.gov.au">www.asic.gov.au</a>
Takeover	A takeover is when a company or individual(s) takes effective control of an existing company, usually by buying enough shares to become a majority shareholder.	<a href="http://www.asx.com.au">www.asx.com.au</a>
Transfer agent (US)	An agent who maintains records of stock and bond owners to cancel and issue certificates, and resolve problems arising from lost, destroyed, or stolen certificates.	<a href="http://www.investor.nasdaq.com">www.investor.nasdaq.com</a>

Term	Description	Sources and/or Further Information
Venture capital	Venture capital is money provided by people (usually a partnership of several investors) who invest alongside management in young, small start-up companies that are looking for the funds to properly establish themselves.	<a href="http://www.avcal.com.au">www.avcal.com.au</a>
Volatility	Volatility is the measure of the degree of fluctuation in price of a security calculated using a given method (for example standard deviation of average daily price change).	<a href="http://www.asx.com.au">www.asx.com.au</a> <a href="http://www.investor.nasdaq.com">www.investor.nasdaq.com</a>

Online glossaries:

- [www.investor.nasdaq.com](http://www.investor.nasdaq.com) - (choose Investor Resources link then Investor *Glossary of Terms* link)
- [www.nyse.com](http://www.nyse.com) - (choose *Help/Glossary* link)
- [www.asx.com.au](http://www.asx.com.au) - (choose Glossary link)
- [www.fido.asic.gov.au](http://www.fido.asic.gov.au) – (choose *Definition of terms* under Quick links)

# ASIC at a glance

The Australian Securities and Investments Commission enforces company and financial services laws to protect consumers, investors and creditors.

We are an independent Commonwealth government body, responsible for consumer protection in shares and other financial investments including managed funds, superannuation, insurance and deposit taking.

We regulate and inform the public about Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance and deposit taking.

The *Australian Securities and Investments Commission Act 2001* requires us to

- uphold the law uniformly, effectively and quickly
- promote confident and informed participation by investors and consumers in the financial system
- make information about companies and other bodies available to the public
- improve the performance of the financial system and the entities within it.

We work with other financial, consumer and law enforcement bodies in Australia and internationally.

For consumers and investors



**fido**

Australian Securities & Investments Commission's financial tips & safety checks

[www.fido.asic.gov.au](http://www.fido.asic.gov.au)