

FINANCIAL SERVICES COMMISSION

Public Forum on
“Think and Check before you Invest”

Terra Nova Hotel
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Opening Remarks

Mr Brian Wynter
Executive Director, FSC

Ladies and gentlemen, members of the media, I wish you good evening. I take pleasure in addressing you at this Public Forum. It is my hope that this occasion will definitely inspire you to “Think and check before you invest”.

This evening I want to use this opportunity in my opening remarks to tell you a story. This will be done with the aim of stimulating your thinking process and reminding you of how important the role of the FSC is regulating and monitoring investments.

THE STORY

My story begins with a man by the name of Bennett. His name is not disguised for the purpose of this story. Patrick Bennett offered tax free investments. He said he would rent photocopy machines to various entities, including local government. This business was so lucrative that he could offer a very high return on the initial investment. Of course, in the early years the returns were paid. People got their interest as advertised by Mr Bennett. There was one lady,

mature in years, whose husband had died. She was persuaded to invest the US\$5,000 funeral grant received from her insurance company. She was not alone; Mr Bennett targeted a lot of people like this lady. But even law firms invested in Mr Bennett's operation using some of their pension money. Still, the majority of his investors were in the US\$5,000-US\$10,000 range. Because his operation was a Ponzi scheme he eventually found it harder to find new investors in this range. The immediate result was that he began to fall back on his promise to deliver the returns initially promised.

Meanwhile, Mr Bennett was living the high life. He was investing money in real estate including hotel properties, with one small wrinkle: he never made these investments in the company's name or in his own name. These investments were always made in his wife's name, or his father's name, or even in his children's name. Of course, his children went to the best schools, and life was good to him, you could say. It was all being funded by his little project – the Ponzi scheme.

One day, the United States Securities and Exchange Commission ("SEC"), for this story is a true story and it took place in America, went in and examined his books. They found that he should have been registered with the SEC. His investment arrangements with his investors were securities that should have been registered as well. They also found that he had misrepresented to investors that their return from the investment was tax free because their funds were being used to rent photocopy machines to municipalities, including New York City. It turned out that New York City never rented photocopy machines; it owned all of its photocopy machines. The investments that he was selling were based on a big lie.

The United States government moved in and prosecuted. But first, they asked the court for a temporary restraining order, which is an injunction that would effectively freeze everything as is. Mr Bennett's company employed some smart lawyers, however, who lost no time in filing for bankruptcy. The effect of that action was that the trustee in bankruptcy now had a job to do to gather up the assets of the company. It would not surprise you to learn that he had a great deal of difficulty in trying to find these assets and that the process involved lengthy drawn out litigation to find and get at them because the assets, for example, a hotel, would be in the name of, for example, Mr Bennett's wife. You see, from the perspective of the regulator, prosecutions may be brought, and they may even end in convictions and due punishment being meted out to the perpetrators of frauds such as this one. But, from the perspective of the investor who has lost money, fines and prison terms give them no money back and very little satisfaction. In the Bennett case, by the time the litigation was finished, there were only pennies on the dollar left. You can appreciate the pain and hopelessness that was their lot, particularly of the older people (many of whom were in their 60's) and pensioners who were left with virtually nothing.

THE MORAL

The moral of the story is that the field of investments is a ripe one for fraud against investors. Securities laws are essentially anti-fraud laws; an attempt to prevent fraud against investors. At the end of the day, yes, you can sometimes get criminal charges, but where does it leave the investors when all the funds have been depleted on the lavish lifestyles of these individuals like the Bennetts?

Here's another story, this time about a man called Charles. Charles thought he could take advantage of differences between US and foreign currencies used to buy and sell international mail coupons. He told investors that he could provide

a 40% return in just 90 days compared with 5% for bank savings accounts. Charles was deluged with funds from investors, taking in US\$1 million during one three-hour period. Though a few early investors were paid off to make the scheme look legitimate, an investigation found that Charles had only purchased about US\$30 worth of the international mail coupons. Money from new investors was used to pay off earlier investors until the whole scheme eventually collapsed.

This story is not from the financial pages of today's Gleaner but from the USA in 1921¹. Charles is none other than Charles Ponzi whose name is now synonymous with blatant securities fraud. It is interesting to note that so little has changed in these stories that span 80-90 years. But we should not be surprised at the scope of human ingenuity and the depth of human greed. We should take precautions.

Let me commend you for demonstrating your interest in the activities of the FSC by accepting our invitation to be here. Continue to have a wonderful, pleasant and productive evening.

Thank You.

Brian Wynter
Executive Director
Financial Services Commission

¹ <http://www.sec.gov/answers/ponzi.htm>