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Lack of central regulator makes Canada attractive to fraudsters, says U of L researcher

Research points to a need for added vigilance into Ponzi schemes during economic downturns

Being caught in a Ponzi scheme gave Cam McCormick, a sessional instructor at the University of Lethbridge's Edmonton campus, a subject for his master's thesis. The end result of his research points to the need to strengthen Canada's regulatory environment to make it less appealing to those who intend to deceive.

"Canada is the only G20 nation without a centralized securities agency," he says. "We are actually a net importer of white collar crime."

With no centralized agency, interprovincial securities investigations become the purview of the RCMP. Under a climate of austerity budgets, McCormick says that means only white-collar criminals tied to organized crime will be investigated, further opening the door to unscrupulous operators.

"Why would anybody in the investor class spend a dime in Canada?" he says. "In a recessed economy you start to see what are called vulture capitalists. More and more people will be riding

that grey, ragged edge between legal and illegal. As people become more desperate they can become more vulnerable to financial predators.”

McCormick says current securities laws are such that it's legal, as long as it's disclosed in a company's prospectus, to say that current investors will be paid out by future investors, the very definition of a Ponzi scheme. Ponzi schemes promise high returns with little risk. Acquiring new investors generates returns for older investors but they typically collapse when new investments stop.

“As investors in Canada, we deserve better. We deserve to have central regulators and a regulator with teeth that can actually dish out serious punishment and compel witnesses to appear. Right now there's no real bite,” says McCormick.

Through the course of his research, McCormick learned that corporate structure could make it next to impossible for people to recoup any of their money if they are caught up in a Ponzi scheme. A corporation may have no moral compass, per se, other than the values of the individuals behind it and they can hide behind a corporate veil.

“They are protected from any kind of culpability or liability unless you can prove, from the onset, that the intent of the corporation was fraudulent,” says McCormick.

If fraudulent intent can be proven, then the corporate veil is lifted and those individuals' personal assets can be seized to help repay victims. If not, the corporate veil stays in place and people have to go after the corporation to try and get their money back. Often they find a corporate shell game where the first corporation has sold its assets to another corporation, which in turn has sold it to

another corporation.

Dr. Robbin Derry, an associate professor of management at the U of L's Edmonton campus who supervised McCormick's master's thesis, says it's buyer beware, especially when it comes to personal investments.

"We're all vulnerable to misjudgments and we all want to trust that people are telling us the truth; that people are trustworthy for making deals," she says. "In this age of more information coming at us more quickly, we must figure out who to trust. We have more decisions to make but we're not better at knowing who to trust now than we used to be."

She advises people to be extremely careful about putting too much money into anything that is unregulated. Stick to industries and investment instruments that are regulated and insured.

"Take a risk with \$5,000 but not with \$50,000 or \$100,000 unless you can really afford to throw that away," she says. "Financial regulations are in place for a reason. We need to learn more from our long history of exploitive schemes by individuals who are willing to hurt even their family members to make money."

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