



INVESTMENT OFFERS OF THE PYRAMIDAL TYPE AND PONZI SCHEMES: THE FSMA WARNS THE PUBLIC

The Financial Services and Markets Authority (FSMA) warns the public against investment offers promising exceptional returns and based, either visibly or otherwise, on setting up a system of recruitment, membership and enrolling other members. These offers promise unrealistically high returns, although they may appear most attractive. They generally conceal fraud practices, and in most cases result in the complete or partial loss of the initial outlay by the investor.

The *modus operandi* is as follows: the initiator of the pyramid scheme presents potential investors with investment opportunities which he claims to generate very interesting returns that highly exceed market returns. Subsequently, the initiator receives the first funds of investors who are attracted by the returns promised. Contrary to the promises made to them, those first funds are never invested. The investors are, however, asked to recruit new investors themselves and they are again promised a yield increase. New investors entering the scheme, guarantee the flow of money, which is still not invested, but is partially used to remunerate the first investors. In that way the pyramid gradually grows and, as long as new investors join the scheme, the upper layers of the pyramid keep receiving money. That growth is, however, not indefinite. As soon as the lower layers of the pyramid fail to recruit new members, the entire pyramid collapses. As a result, the majority of the investors will never recover their initial investment (either partially or completely).

A Ponzi scheme is a similar fraud scheme. Within a Ponzi scheme, which is also based on a financial construction within the framework of which advantageous investment offers are made of which the return generally exceeds the market return, the investors are not necessarily required to recruit new investors. In a Ponzi scheme the amounts deposited by the investors are, however, not invested either, but used to pay the return promised to the first investors (and to personally enrich the scheme's initiator). If the fraud is not discovered, it comes to light as soon as an insufficient number of new investors enters the system to finance the return on the investment of earlier investors.

For those reasons, the FSMA asks investors to be extremely cautious and strongly advises against responding to any such offers and against bringing such offers to the attention of third parties.

In order to prevent such fraudulent practices the FSMA recommends that consumers:

- be wary (of promises) of completely disproportionate returns. A guaranteed investment with a high return that considerably exceeds the market return, is often too good to be true;
- always verify the company's identity (identity details, country of establishment, etc.). Never trust a company if it cannot be clearly identified;



- check whether the investment is subject to the FSMA's supervision and whether the company offering the investment holds an authorization. Please consult the lists of persons authorized to offer regulated financial services - click on "[Financial service providers](#)";
- ask their intermediary for clear and comprehensible information. Investors should refrain from investing if they do not fully understand what is being offered.

In case of any doubt about an investment proposal with the characteristics of a pyramid or Ponzi fraud scheme, do not hesitate to contact the FSMA directly (email address: info@fsma.be). All questions or complaints about a pyramid scheme can be submitted to the Directorate-General Enforcement and Mediation of the FPS Economy (*"Direction générale de l'Inspection économique / Algemene Directie Economische Inspectie"*) which is competent for that matter (eco.inspec.di@economie.fgov.be or via the website of the [FPS Economy](#)).

Brussels, 23 September 2016

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