

Review “Share Fraud & Boiler Room Scams Exposed”,

February 2018

By Leon Pörteners MSc in Policing,
Financial Investigator and Researcher

This book, published in December 2017, is about a research undertaken by Roest into worldwide boiler room share fraud. The publication is an attempt to stimulate and enhance the scientific study of the phenomenon of boiler room fraud and is intended to make government authorities involved with the enforcement and investigation aware of the best practices existing elsewhere and to encourage greater international cooperation (Roest, 2017, p. 6). It is Roest’s opinion that the extent of boiler room/stock fraud scams is underestimated due to the fact that most national governments do not know how to adequately address this international form of organised crime (Roest, 2017, p. 21).

The activity of a boiler room¹ consists essentially of offering to customers securities of certain issuers in large volume by means of intensive selling campaign through numerous salesmen by telephone or direct order, without regard to the suitability to the needs of the customer, in such a manner to induce a hasty decision to buy the security being offered without disclosure of the material facts about the issuer (Roest, 2017, p. 27).

Roest has been studying boiler room fraud for many years and he describes the structure and the modus operandi of international boiler rooms and identifies signs that indicate suspicious activity or criminality (Roest, 2017, p. 7). By doing so the reader gains an insight on how boiler rooms work and how fraudsters use the opportunities offered by the global society.

Roest expects that because of the low interest rates after the banking crisis (2008-2011), it is expected that small investors searching for higher rates will become more susceptible to calls from boiler rooms and that for that reason the number of boiler room victims is expected to increase (Roest, 2017, p. 24). Regarding the way how boiler rooms work he concludes that a fraudster mostly uses more boiler rooms. The boiler rooms are deliberately split across various countries², to delay and mitigate the risk of being dismantled by investigating authorities. Next to that he found out that in boiler room structures it is common that no fund raising takes place in the countries where boiler rooms are based as they want to avoid the creation of victims who could alert the authorities. At last he concludes that boiler room organizations are increasingly starting their activities in less developed

¹ The term boiler room is derived from the place (room) where trained salesmen in call centers are at work and from where potential individual investors are contacted by phone or e-mail out of the blue. These individual investors are put under pressure into making a rushed decision and are purposely misled so that they invest in shares, financial values and commodities at prices far above their actual value. The frauds are well organised and convincing, with constantly evolving modus operandi (SEC v. R.J. Allen & Assocs. Inc., 386 F. Supp.866,874 (S.D. Fla. 1974) cited in (Roest, 2017, p. 27)).

² One of the examples given is a British investigation into a boiler room organization operated by George Abrue, a Nigerian immigrant to the U.K.. He had professional websites and leaflets developed and produced in Sweden and operated from the island of Majorca (Spain). The boiler room targeted elderly and vulnerable inhabitants of the U.K.. The money obtained from these fraudulent deals was laundered through Swedish and Italian bank accounts (p. 44)

countries³, such as Southeast Asia, from where the U.K., the U.S. and Australia are being targeted (Roest, 2017, pp. 44-45).

These insights lead to the conclusion that the specific structure and operation of boiler rooms need to be considered so that specialized enforcement units of the police and Justice Department can be utilized in such a manner that the knowledge and expertise required to fight them will not be lost. The know-how of specialized enforcement units should therefore be recorded and shared. These enforcement units should maintain contact with their foreign counterparts, thus enabling information exchange and international cooperation (Roest, 2017, p. 25). The international character of the fraud indicates the need for worldwide legal cooperation in order to follow the flow of money and the questioning of suspects, victims and other witnesses world-wide.

These insights about the international scope of boiler room fraud are essential the moment Kabki's criteria are used to analyse and to fight boiler room scams. Roest makes several about measures that could be taken in the fight against boiler room frauds in the international environment in all of the 3 applicable categories determined by Kabki: in taking away possibilities, diminishing suitability of becoming a victim and in becoming an effective guardian.

In the field of taking away possibilities he recommends creating a disruption strategy on an international level. For instance by issuing international directives or guidelines on how to approach website managers, telephone companies and banks with the objective to take websites 'off the air', disconnect their telephone services and close associated bank accounts in order to create a desired level of disruption. Disruption of boiler room activities is needed especially if the police lack the capacity on a national level to perform full investigations against internationally operating boiler room organisations.

Moreover, with regard to the aspect of diminishing victim suitability, Roest recommends creating awareness of the public about the way boiler rooms work by warning them via informative media campaigns.

Finally, in the field of effective guardianship Roest makes several recommendations. He advises to create a taskforce or contact point where international investment fraud and boiler room crime fighters can more easily meet and share information and act more quickly on international help requests from abroad. Next to that he proposes the creation of a cell at the EU-level, for example through Europol or Eurojust, that is structurally engaged in the study and mapping of the boiler room phenomenon. This cell can facilitate national investigative services in order to ensure expertise, to analyse intelligence and to facilitate knowledge transfer among countries (Roest, 2017, pp. 124-125).

The author thinks that the recommendation of creating awareness by informative media campaigns is the measure that will be the most effective in the fight against boiler room fraud, as this will resort an effect immediately and its implementation is rather simple compared to the other measures. In these campaigns people should be taught to recognize boiler room activities and next to this campaign even could help in becoming a more effective guardian by encouraging the public to report suspicious activity to the police. Finally the creation of a central mechanism specialized in this kind of

³ A reason for this shift could be that these countries lack the knowledge, expertise and resources at the local justice department level to counter these activities. Corruption could play a role as well insofar as local authorities are paid to keep their eyes shut or warn criminal operators ahead of time in the event problems might arise for them ((Berry, 2011) cited in (Roest, 2017, p. 45)).

fraud, which could act as an information and knowledge hub, is necessary in order to get as quick as possible an insight in the fraud and the fraudsters behind it. This mechanism seems to be necessary to become intelligence led in this field, as at the moment the policing of boiler room fraud in the global society, according to the publication of Roest, is mainly done in a reactive way.

Leon Pörteners MSc in Policing
Financial Investigator and Researcher