

Boiler rooms

More and more people in the UK are being sold worthless shares in 'boiler room' scams. Just how big is this problem?

- 1 Do you think that buying shares is a good investment, or not? Why? Discuss your answer with a partner.
- 2 Read the report extract and decide on the most likely options to complete the two sentences. Then scan the article below to check your answer.

Scam (n): a dishonest plan, especially for getting money.
(Definition from Macmillan English Dictionary Ed 2. 2007 Text © A & C Black)

- (a) The amount of money lost each year in the UK in these scams is: *£2 million / £20 million / £200 million*
(b) Most scams involving mis-selling of shares to the UK originate in: *Brazil / Eastern Europe / Luxembourg / Spain*

Share scams £200 million a year – that's how much UK residents lose a year to the latest type of fraud: boiler room scams. Annual UK losses in this kind of scam are now bigger than credit card fraud. Yet this figure is probably just the tip of the iceberg. It is based on the number of complaints received each year by the FSA (Financial Services Authority), the financial services watchdog. The real amount of money lost to the fraudsters is probably much higher.

A boiler room is a room staffed by teams of salesmen. They operate from the USA, Brazil, Switzerland, Luxembourg, Eastern Europe and even Japan. Most scams involving mis-selling of shares to the UK originate in Spain, which may have as many as 500 boiler rooms. Firstly, staff obtain shareholder lists containing the names and numbers of potential victims. Then, they make cold calls, trying to persuade people to buy shares, but either these shares do not exist, have little value or they are totally worthless.

The fraudsters use telephone bullying and high-pressure sales techniques to get their victims to part with their money. One UK victim paid £40,000 to a share salesman who phoned out of the blue from Luxembourg. Why do people fall for this scam? Usually, the salesperson grabs your interest by saying 'you'll get the shares cheap and make a huge profit when you sell'? Callers may know which shares you own and promise to greatly improve the financial advice you get. Persistence is important – many people finally give in when receiving repeated calls from boiler rooms.

It is a criminal offence to sell shares to UK investors without being authorised by the FSA. It is a fraud to misrepresent the value of worthless investments. People should never buy anything from a call that you don't initiate. So, if you get a call from an 'investment opportunity' company, just hang-up. It's probably a scam. Remember, if it seems too good to be true, then it probably is!

- 3 Read the whole article. Summarise what happens in a boiler room scam.
- 4 Identify the words in the article from their definitions below:
 - (a) an organisation that works to stop people doing illegal things in a business area
 - (b) someone who commits the crime of obtaining money by tricking someone
 - (c) not having any value
 - (d) using your influence to get what you want
 - (e) quality shown by someone who continues to do something in a determined way
 - (f) give a false account of something in order to trick someone

(Definitions from or based on: Macmillan English Dictionary Ed 2. 2007 Text © A & C Black)

- (paragraph 1)
(paragraph 1)
(paragraph 2)
(paragraph 3)
(paragraph 3)
(paragraph 4)

- 5 In small groups, discuss the questions and report your ideas back to the class.
 - (a) Have you ever bought anything you didn't really want from a high-pressure salesperson?
 - (b) Does your own company cold call? Is it effective? How do you personally deal with cold-callers?
 - (c) What would be an appropriate penalty for a fraudster involved in a boiler room scam?
 - (d) Do you know any other examples of 'scams'? If so, describe what happens.