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FINANCIAL PYRAMIDS AS ONE OF THE KINDS OF FINANCIAL FRAUD IN UKRAINE: PRINCIPLES OF FUNCTIONING AND THE IMPACT ON INVESTORS

The socio-economic development of the state necessitates security in the financial services market. Particular attention should be paid to the protection of private investors, since ordinary citizens mostly have little experience in investing their funds and have limited ability to recover their rights [1, p. 74]. Due to the imperfection of the legal framework, the low level of financial literacy of the population and the presence of the psychological aspect, which is the desire to obtain twice or three times more in the short term, there are so many types of financial fraud in the Ukrainian financial market.

One such fraud was the pyramid, which looks like trust companies, investment funds, banks, credit unions, or other commercial organizations.

Financial pyramid is a scheme of work of the organizers of the pyramid with investors, in which liabilities for previously attracted funds are not fully covered by their investment in profitable projects or assets for the purpose of acquisition of which were attracted funds, but will be repaid by joining the scheme new investors and receiving cash proceeds from them [2, p. 227]. Financial pyramids work on the principle of providing payments to initial investors at the expense of contributions from new investors. Typically, investors initially receive extra profits, which may be more than 500% of the initial deposit amount, but as soon as depositors' interest to the financial pyramid happens its destruction. Investors who have not managed to withdraw the investment remain with nothing, and all the funds remain in the accounts of the founders of this pyramid.

All financial pyramids are characterized by certain signs of their functioning. The main ones are the absence of a product, which means the absence of a certain financial and economic activity of a commercial organization, so, when profit is generated not by creating a product or service, but by new investor contributions. If the main task is to attract other people and the income of the citizen consists of the money that these people bring (whom he called for himself), then such a company is very clear in defining the financial pyramid [3]. Also, there is a possibility of building a financial pyramid when the product seems to be there, but it is practically not in demand and its price is usually very high, which is very good bait for an inexperienced investor.

The pyramid is also characterized by the slogan, the sooner you join this organization, the more profit the investor expects. Often, the profit scheme is quite abstract and not detailed. However, most of the time it is acceptable for the average investor, because when conducting financial transactions in the financial services market, there is always a risk of non-receipt of funds.

It is worth noting that usually the information about the founders of the financial pyramids and their executives is hidden, and the company itself is registered in the offshore area. Such signs should, first and foremost, be a significant signal to investors about the advisability of investing in a particular financial institution.

It is worth noting that in the history of Ukraine there were many types of financial pyramids. «MMM» JSC, which operated on the territory of the former Soviet Union in 1992-1994, became the most famous association with the signs of the «financial pyramid». at the rate of 1000% per annum, followed by an aggressive advertising campaign.

According to various estimates, the number of private investors ranged from 3 to 20 million people. However, the obvious fraudulent intentions of the organizers of the financial pyramid and its activities were discontinued [2, p. 230].

Nowadays, about ten financial pyramids are active in the financial market of Ukraine. These include: Olymp Trade, IQOPTION LTD, MMCIS, Cashberry, StartCom, FTC, FIBO Group, RoboForex and others. The scheme of their action is usually no different. Two schemes are commonly used in Ukraine. The first – the standard – bring the second and make a profit. The second scheme is to buy an investor a certain block of shares that the company promises to buy out over a period of time at a higher price. An important condition is that all these transactions are most often performed on the stock market.

The main consequence of financial pyramid activity for investors is the loss of their financial resources and the inability to recoup them. After all, nowadays, no legislative framework has been created in Ukraine that regulates the operation of financial pyramids on the territory of Ukraine. That is why investor protection is impossible.

Therefore, the main task of the state in this area is to establish strict control over the emergence and functioning of pyramid schemes in Ukraine, to adopt the Law of Ukraine «On the Prohibition of Financial Pyramids in Ukraine», which was not finally adopted in 2013, and to restrict large-scale legislative campaigns for these organizations' data. In our opinion, implementation of these measures will allow to start working on combating the functioning of financial pyramids in Ukraine and will protect the interests of domestic investors in the financial services market of Ukraine.

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