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Four sentenced in a $10 Million "Ponzi" fraud

Four men who operated high-yield investment schemes have been sentenced today to a total of over ten years after admitting their participation in defrauding investors worldwide of a total of US$10 million. A fifth man was sentenced in September 2008. At the centre of the fraud, entailing one of the most complex investigations undertaken by the SFO and Cheshire Police, was a project to extract gold from spent ore, though not an ounce was produced, and no revenue generated.

Maincrest Investments Ltd and London & General Finance Ltd

Two of the men, Frederick Taylor and Martin Shaughnessy, (both former Cheshire police officers) ran Maincrest Investments Ltd ("MIL") and London & General Finance Ltd ("LGF") between 1996 and 1998 from an office in Lymm, Cheshire. They solicited investments in multiples of $100,000 (usually through intermediaries who were paid high levels of commission) from investors in locations across the world including Arizona, Texas, New Mexico, Netherlands, Holland, Bulgaria, Hungary, Canada, Spain and Singapore as well as the United Kingdom, The investigation was greatly assisted with co-operation from these various overseas jurisdictions and the US Federal Bureau of Investigation, the Department of Justice in Texas and the American Embassy in London.

The investors were typically high net worth individuals. Each believed they were buying into a lucrative opportunity to be involved in select bank trading programmes where returns would reach 80 to 100% within 12 months. No risk was the promise, because their investments were secured by "bank guarantees" and supposedly with the protection of insurance, both, in reality, had no substance. Investors, further comforted by the presence of an independent "stakeholder" in the form of an English solicitor named Christopher Darke, were invited to transfer funds electronically to a US$ client account of Mr Darke. Almost $9 million was handed over by nearly 30 investors. These funds were not invested in the way proposed and instead earlier investors were paid with later investors' monies, essentially a "Ponzi" scheme, and the insurance policies that were in place proved worthless. Moreover, Mr Darke far from being independent, was in fact a Director of one of Mr De Rome's companies, Anglo American Metals Inc, and was pivotal in the creation of loan agreements between MIL and LGF and AAM unbeknown to the investors.

The existence of two former police officers and a solicitor was relied upon by investors and clearly lent credibility to the scheme.

Anglo American Metals

Without the knowledge of the investors, the funds were transferred to an enterprise ostensibly set up for the commercial extraction of gold from spent ore or power station waste ash at a plant in Texas. The company, Anglo American Metals Inc ("AAM") was set up by Paul De Rome with its base in Victoria Texas. Some of the funds were used to buy equipment but the business did not go into production and therefore did not generate any income. De Rome claimed academic achievement though his BSc in Chemistry and his BA in Automotive Engineering Design were internet purchases. Darke, together with another participant Ian Whittock (a financial consultant) were engaged to help promote investments in the business. Both were old acquaintances of Mr De Rome and became Directors of AAM.

De Rome had to obtain insurance to cover risk of failing to make payments due to MIL and LGF but the arrangements he put in place were inadequate, unauthorised or simply false.

As De Rome's metals business was not generating any revenue he needed to raise funds to pay instalments to the earlier investors obtained through Taylor's and Shaughnessy's companies, MIL and LGF. He set up a scheme to sell shares in other companies he controlled and, together with Taylor and Shaughnessy, offered sell-back options at a guaranteed 100% profit. Again, they claimed it was all insurance-backed. Existing and new investors were attracted. Although some early payments were made, the guaranteed buy-back promises were not honoured.

"Debt for equity"

In 1999 Taylor and De Rome offered investors a settlement. Investors could agree to take shares in Anglo American Metals in return for foregoing outstanding profits from their Maincrest Investments and London & General portfolio. They were told that the shares would be listed and could then be sold or alternatively there would be an option to sell the shares at a later date to another of De Rome's companies. The flaw however is that the underlying value in this arrangement was a business that had failed to commence production and had therefore precipitated the initial shortage of funds.

Another of De Rome's schemes was to offer investors a settlement whereby the money owed to them would be met by way of share lots in another of his companies, Ventura, on the basis that they would then relinquish their claims against Maincrest Investments and London & General. The plan was to then sell the Ventura shares to new investors and the resulting proceeds going to the original investors, who were also encouraged to introduce new investors to Ventura, though none did. A lien was attached to the share lots so that when new investors could not be found, the existing investors received the shares.

Proceedings

Following a joint investigation by the SFO and the Cheshire Constabulary, on dates between February and April 2006 the defendants Frederick Taylor, Martin Shaughnessy, Christopher Darke, Ian Whittock, Paul de Rome and Malcolm Bradley were charged with one or more offences of;

- Conspiracy to defraud contrary to common law
- Fraudulent trading contrary to the Companies Act
- False accounting contrary to the Theft Act

- Making false or misleading statements contrary to the Financial Services Act

De Rome was additionally charged with using a false instrument contrary to the Forgery and Counterfeiting Act

For trial management purposes four of the defendants (Taylor, Darke, Shaughnessy and Whittock) were tried first. This trial was due to commence at Liverpool Crown Court in September 2008, however before the prosecution formally opened their case Taylor, Darke and Whittock admitted to conspiracy to defraud. They were bailed to be sentenced after the second trial. Shaughnessy, who admitted to fraudulent trading, was sentenced on 23rd September 2008 to 16 months' imprisonment suspended for two years and a seven-year disqualification from holding a company position. He was ordered to pay £38,000 by confiscation.

The trial of De Rome and Bradley opened in February 2009. De Rome pleaded to conspiracy to defraud and to making false and misleading statements. Bradley was acquitted by the jury.

Today [19 June] the sentences handed down by HHJ Swift were:

Paul De Rome	46 months in prison
Frederick Taylor	36 months in prison
Christopher Darke	28 months in prison
Ian Whittock	14 months in prison suspended for 2 years

In addition De Rome and Taylor were disqualified from being a Director of a company for 10 years.

Confiscation proceedings are underway against De Rome, Darke, Taylor and Whittock and are due to conclude in September 2009.

Serious Fraud Office

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