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FINANCIAL PYRAMIDS AS A TYPE OF FINANCIAL FRAUD: THEORETICAL-MOTIVATIONAL ASPECT

Theoretical and subject-motivational bases of financial pyramids functioning as a type of financial fraud are investigated. Critical analysis of the opinions of domestic and foreign scientists and the norms of the current Ukrainian legislation regarding the definition of the term “financial pyramid” is made. Emphasis is made on the negative financial, economic, and social consequences of the spread of pyramid schemes. Focus is also made on the peculiarities of financial pyramids compared to fraud, financial institutions’ activities, and gambling. Typical features are identified and the most common types of financial pyramids in modern Ukrainian realities are accentuated. Strategic vectors for minimizing this negative phenomenon in Ukraine are proposed.

Keywords: financial fraud, financial pyramid, types of financial pyramids, common features of the financial pyramids, prevention of spread of the financial pyramids.

Purpose. Under today’s conditions of socio-economic processes development ways of committing financial fraud are rapidly modified and improved, and the fraudsters are often disguised as completely virtuous companies (trust companies, investment funds, credit unions, online shops, insurance, travel companies, religious and charitable organizations, etc.), diversify their activities with attributes that are of the ordinary citizens’ interests. At the same time, the scientists note that the bulk of such fraudsters operates on the basis of network marketing, which is implemented primarily in the form of financial pyramids¹, and emphasize that this type of fraud is the most socially dangerous, as it involves a large number of victims and large amounts of material losses. After all, according to statistics, at the best way, the depositors are returned with no more than 10-15%² (the longer the pyramid runs, the lower is the percentage of possible refunds in case of its liquidation), moreover, the number of persons, who made the first contribution but did not find new participants (and therefore did not receive any revenue) is more than 90%³.

In addition, the activities of financial pyramids also cause negative macroeconomic and financial effects, as these organizations reduce the ability of the banks to fully fulfill their primary function – to credit into the economy (as “the more people invest into the pyramids, the less money will go into the real sector”⁴) and diminish public confidence in the stock and financial markets in general, depriving the Ukrainian economy of an important investment resource – household savings.

Therefore, in view of the rapid spread and great public danger of financial pyramids, we consider it necessary to perform a deep study of the content of this phenomenon and to analyze the interpretations of this notion in modern economic science and legislation.

Analysis of recent research and publications. It should be emphasized that in Ukraine the study of financial fraud problems in general and the spread of financial pyramids, as its type, in particular, is predominantly within the field of view of the representatives of legal science (Kalman O.G., Karpovych O.G., Kravchenko O.V., Kurman O.V., Matusovskyi G.A., Pivovarov V.V., Pidkhomnyi O.M., Rogovenko D.S., Chernyshov G.M., Cherniavskiy S.S., Yarmolenko Y.V., etc.), but domestic financial science (with quite a few exceptions), unfortunately, practically does not investigate these matters. Thus, from the list of the theses defended in Ukraine during 1998-2018 and dealt directly with the problems of financial fraud, six (6) belong

¹ Євчук, Л. А. (2015). Правові основи фінансового шахрайства: причини розквіту та соціально-економічні наслідки. *Наукові праці. Серія: Економіка*, 253 (265), 45.

² Кедрова, Д. В., Герасименко, Л. В. (2015). Фінансова піраміда як спосіб шахрайства: поняття та ознаки, 162. *Електронний репозитарій НАВС* <<http://elar.naiu.kiev.ua/handle/123456789/6936>> (2020, March, 03).

³ Бобров, Є. А. (2013). Аналіз діяльності неконтрольованих інвестиційних схем. *Фінанси України*, 4, 98-105.

⁴ Пасочник, В. (2012). У держави з МММ нібито й нема проблем? *Дзеркало тижня*, 28 (18-22 травня).

to the law sciences, and there is no thesis that is protected in economic specialties in general and specialty 08.00.08 – Money, Finance and Credit in particular¹.

Presentation of the basic research material. Considering that the terms “financial fraud” and “financial pyramid” are becoming more commonly used both in the Ukrainian scientific environment (even though absence of a clear legal framework) and in the media and the Internet, as well as for the purpose of an objective and systematic study of the problems, associated with the spread of financial pyramids, we consider it necessary, first of all, to find out the essence and to investigate the deep meaning of this concept.

Thus, Vavulin D.A. and Fedotov V.M. interpret financial pyramid as “a scheme of business organization, in which the revenue is paid through the investments of new entrants”².

Pidkhomnyi O.M. cites the definition of the financial pyramid as “a system of economic relations of a cyclical nature with the inevitable stage of collapse arising in the receipt of revenue by some participants at the expense of contributions of others without value added”³.

Yarmolenko Y.V. defines the financial pyramid as “an institution or enterprise that uses a scheme to seize someone else’s property or money through fraud and / or misuse of trust under the pretense of an economically sound project, which membership is possible only under condition that payments are made to an institution that enables other members of the organization and directly the organizers to make a profit”⁴.

V.Spravzhnia characterizes the financial pyramid as an organization which membership is acquired subject to certain deposits, contributions or other payments, and enables profits to be made to the members of the organization, depending on the number of participants involved⁵.

G. Agasandian defines the financial pyramid as “a financial structure that is an ever-growing system of debt liabilities, being kept by ever-increasing inpayments, which operates without reinvesting the collected funds and only until the current costs of repaying the securities previously issued equals to current revenues from the sale of new securities”⁶. It should be noted that in our view, limiting the pyramid assets used only to securities is not appropriate, since such pyramids can use other financial as well as non-financial assets in their activities to raise funds from citizens.

Mirkin Ya.M., Rosliak Yu.V. and Sizov Yu.S. argue that the financial pyramid is a fraudulent scheme of work of the pyramid organizers with investors, in which the organizers “a) pay money to their participants at the expense of the funds involved from new entrants; b) promise new entrants high return on their investments; c) use unfair and deceptive sales tactics, crowd manipulation techniques, socio-psychological factors of involvement into the financial pyramids, turning individuals into debilitated victims”⁷.

Kniaziev S.M. defines the financial pyramid as “a technology of criminal activity that is used as a way of seizing someone else’s property by cheat and abuse of trust (fraud) under the pretense of an investment project, which membership is acquired under condition of making certain deposits, contributions or other payments that allows to make profit by the members of the organization depending on the number of stages of attracting new entrants, and the organizers make a profit from the contributions of all groups of participants”⁸. However, this definition has a certain disadvantage, namely that the author narrows the notion by taking only investment activities for covering criminal activity. After all, especially in recent years, financial pyramids often hide behind other types of economic activity.

¹ Офіційний сайт Національної бібліотеки України імені В. Вернадського (2020). *Автореферати дисертацій* <<http://www.irbis-nbuv.gov.ua/cgi-bin/suak/corp.exe>> (2019, November, 20).

² Вавулин, Д. А., Федотов, В. Н. (2009). Финансовые пирамиды: понятие, механизм функционирования, примеры из мировой и отечественной практики, трансформация в условиях финансового кризиса. *Финансы и кредит*, 29 (365), 56.

³ Підхомний, О. М. (2014). Критерії ідентифікації фінансових пірамід і моделювання їх функціонування. *Бізнес Інформ*, 11, 103.

⁴ Ярмоленко, Ю. (2014). Сучасні технології побудови фінансових пірамід. *Право і суспільство*, 1, 178.

⁵ Справжня, В. (2008). Глухі кути фінансових пірамід. *Персонал плюс*, 6 (258). <<http://www.personal-plus.net/258/2933.html>> (2020, February, 08).

⁶ Агасандян, Г. (2000). «Финансовые пирамиды» и проблема дефицита госбюджета. *Рынок ценных бумаг*, 8, 33.

⁷ Полтавченко, Г. С. (ред.) (2007). *Правонарушения на финансовом рынке: выявление, анализ и оценка ущерба: справочник для сотрудников правоохранительных органов*. Москва: Альпина Бизнес Букс, 535.

⁸ Князев, С. М. (2011). Фінансова піраміда: поняття та криміналістичні ознаки. *Юридичний часопис Національної академії внутрішніх справ*, 1, 30.

Bielianin A.V. and Isupova O.G. note that the financial pyramid is a “private company that attracts deposits from individuals under the promise of paying high revenue that are many times higher than the average market rates”¹.

Anikin O.V. considers the financial pyramid as “a financial enterprise that attracts investors’ funds through high revenue, which is paid (mostly or fully) from new revenue from other investors (depositors)”².

Petrychko N.O. refers the financial pyramid to an organization, which membership is acquired subject to contributions in the form of monetary funds, property or tangible assets, which allows one of its members to make full or partial profit at the expense of the other members involved, and therefore there is a risk of termination the existence of such an organization and causing property damage to each of its following members³.

It should be emphasized that the Law of Ukraine “On Consumer Protection”⁴ states that formation, operation or facilitation of the pyramid schemes development, when the consumer pays for the possibility of compensation provided by attracting other consumers to such scheme, and not through the sale or consumption of products are prohibited as misleading. However, it should be emphasized that the aforementioned normative act only indirectly defines, but does not solve the problems of financial pyramids functioning in Ukraine, since it does not even operate with the definition of “financial pyramid”⁵.

It should be noted that in April 2013, at the first reading, the draft Law of Ukraine “On Prohibition of Financial Pyramids in Ukraine” was adopted under nr. 2700, which under the financial pyramid proposed to consider “any transactions with financial assets (funds, securities, debt liabilities and the right to claim debt not attributable to securities) carried out by individuals or legal entities for the purpose of making or possibility to make to profit for themselves or others through redistribution of other persons’ assets, including without conducting actual economic activities”⁶.

However, it should be emphasized that the downside of defining the financial pyramid with this draft is that it limits the activities of such pyramids to operations with financial assets only, not including the possibility of making contributions in the form of any other property (e.g., precious metals and stones, vehicles, etc.) or respective rights on it. In addition, “such a definition is formally covered the operations carried out by the State Pension Fund of Ukraine”⁷. However, the biggest disadvantage of the above definition is that it practically does not envisage the activity of “electronic MMM” fraudulent schemes, which in fact exist only virtually, are not legally registered anywhere, and that “the funds of their depositors are not transferred into the property of the organizers, but are stored in their personal accounts or intermediary accounts”⁸.

According to the experts⁹, the draft will not be an obstacle for organization of the “pyramids” in the stock market of Ukraine, as companies that attract investors with promises of 100-200% profitability continue to function until now. This draft does not create any obstacles for the activities of pseudo-forex brokers, who offer Ukrainians to earn money on the international currency market, since most of them are registered in offshore zones, and in Ukraine they only have representative offices that do not carry out any commercial activities. By attracting clients, such brokers invite them to transfer investment contributions to offshore

¹ Белянин, А. В., Исупова, О. Г. (2000). «Финансовые пирамиды» в переходной экономике с точки зрения теории игр. *Российская программа экономических исследований: научный доклад*, 10. *Научная Электронная Библиотека* <<https://cyberleninka.ru/article/n/finansovye-piramidy-ponyatie-priznaki-problemy>> (2020, March, 18).

² Аникин, А. В. (2000). *История финансовых потрясений. От Джона Ло до Сергея Кириенко*. Москва: Олимп-бизнес, 75.

³ Петричко, Н. О. (2010). Незаконні азартні ігри: кримінально-правове та кримінологічне дослідження: *дисертація на здобуття наукового ступеню кандидата юридичних наук*. Київ: Київський національний університет, 219-220.

⁴ *Закон про захист прав споживачів, 1991* (Верховна рада України). *Офіційний сайт Верховної ради України* <<https://zakon2.rada.gov.ua/laws/show/1023-12>> (2020, March, 18).

⁵ Ярмоленко, Ю. В. (2013). Економіко-правові умови появи та функціонування фінансових пірамід в Україні. *Європейські перспективи*, 12, 175.

⁶ *Проект закону про заборону фінансових пірамід в Україні, 2013* (Верховна рада України). *Офіційний сайт Верховної ради України*. <http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=46406> (2020, April, 06).

⁷ Піддомний, О. М. (2014). Критерії ідентифікації фінансових пірамід і моделювання їх функціонування. *Бізнес Інформ*, 11, 103.

⁸ Євчук, Л. А. (2015). Правові основи фінансового шахрайства: причини розквіту та соціально-економічні наслідки. *Наукові праці. Серія: Економіка*, 253 (265), 45.

⁹ Ibid.

accounts opened in the name of the intermediary. At the same time, it should be emphasized that such payments are usually disguised as “information services” (since the official opening of an account abroad by Ukrainian citizens is impossible without obtaining an individual license from the National Bank of Ukraine). They promise to transfer future revenue of the clients to the same accounts. If the investor even earns some money from currency speculation, it is still problematic to withdraw money from abroad because he will not be able to prove his involvement in the foreign account or the right on the revenue received. Therefore, in Ukraine, the activities of brokers in the Forex market, as well as the investment companies are not covered by the concept of “financial pyramid”¹, because their attracted funds are invested into foreign currency or securities and are not distributed among participants, as stipulated with the definition of the financial pyramids in the draft above.

Therefore, we have every reason to say that there are now a number of regulatory issues in Ukraine regarding identification of the financial pyramids, because, unlike fraud:

functioning of the financial pyramid may not always be accompanied by cheat or may even contain warnings of adverse effects on depositors (for example, S.Mavrodi warned from the very beginning of MMM-2011 that interest payments on this pyramid would be paid at the expense of new entrants and no one is guaranteed money saving, thus protecting himself from criminal liability for fraud²);

some legal financial schemes and institutions may also have signs of financial pyramids (for example, the activities of the Pension Fund of Ukraine, banking institutions, credit unions, non-governmental pension funds, housing construction, formation of the public debt of Ukraine, crypto currency market, etc.³);

some depositors may still receive some benefits from the financial pyramid.

Therefore, it is not uncommon to hear from scholars and practitioners that there is no fundamental difference between the activities of financial pyramids and other financial institutions (banks, insurance companies, credit unions, non-governmental pension funds, etc.), but experts point out that “the most significant difference between a pyramid is presence of a regulator, an appropriate license, certain laws and regulations establishing certain requirements for their activities”⁴. Kniaziev S.M. is convinced that “the fundamental difference between the financial pyramid and the real business project is the source of dividend payment”⁵.

It should also be noted that often scientists emphasize that participation in the financial pyramid for many depositors is primarily associated with gambling, since “the mechanism of creation and functioning of financial pyramids is a constant risk, excitement, game”⁶ and “the depositor has an opportunity to receive a win, namely “insane” interest; probability of receiving such a win is negligible; depositors lose their money, not primarily because of fraud (though it may be the case), but because of the appropriate nature of such activities, aimed at attracting much higher rates (contributions) from players (depositors) than it is possible to repay”⁷. The same opinion is shared by Ye. Soloviov, noting that “nowadays financial pyramids have become a kind of substitutes for officially banned gambling business – the vast majority of so-called “depositors” are involved in this project, being well aware of all its risks”⁸.

The fact that financial pyramids often operate under the guise of legal structures significantly complicates their disclosure as unfair business practices. And given that today’s fraudsters often “incorporate” all kinds of goods or services (bio-additives, cosmetics or other consumer goods, recruiting

¹ ВКурсе (2013). *MMM закон не писаний* <<http://vkurse.ua/ua/business/mmm-zakon.html>> (2020, February, 26).

² Яхно, А. (2013). Феномен MMM: як Мавроді вдається водити за носа українців. *TCH.ua*. <<http://tsn.ua/groshi/fenomen-mmm-yak-mavrodi-vdayetsya-voditi-za-nosa-ukrayinciv.htm>> (2020, April, 03).

³ Савченко, О. (2018). Що потрібно знати українцям про біткоїн та фінансові піраміди. *ХВИЛЯ* <<https://hvylya.net/analytics/society/bitkoin-ta-finansovi-piramidi-v-ukrayini-i-sviti-shho-potribno-znati-ukrayintyam.html>> (2020, January, 24).

⁴ Четверта влада (2018). *Держфінпослуг попереджає про незаконність діяльності «фінансових пірамід»* <<http://4vlada.com/ukraine/12449>> (2020, January, 17).

⁵ Князев, С. М. (2011). Фінансова піраміда: поняття та криміналістичні ознаки. *Юридичний часопис Національної академії внутрішніх справ*, 1, 30.

⁶ Петричко, Н. О. (2010). Незаконні азартні ігри: кримінально-правове та кримінологічне дослідження: дисертація на здобуття наукового ступеню кандидата юридичних наук. Київ: Київський національний університет, 184.

⁷ Мовчан, Р. О., Дудоров, О. О., Дацюк, В. Б. (2017). Кримінально-правова протидія створенню фінансових пірамід в Україні: сучасний стан і перспективи вдосконалення. *Юридичний науковий електронний журнал*, 2, 117.

⁸ Соловійов, Є. (2013). Фінансові піраміди: про взаємну відповідальність держави і громадян. *ZN.UA* <<http://gazeta.dt.ua/finances/finansovi-piramidi-pro-vzayemnu-vidpovidalnist-derzhavi-i-gromadyan-.html>> (2020, April, 08).

services, etc.) into pyramid schemes, it enables them to legalize their activities, enter into contracts and even pay the appropriate taxes. However, in most cases, “the sole purchasers of such products are the participants of the pyramid, for whom the contribution is to make the relevant purchase”¹. Moreover, the organizers of the financial pyramid use techniques of psychological influence on the victims, in particular with the use of technologies of neurolinguistic programming, as well as aggressive advertisement in mass media and the Internet for realization of criminal purpose and involvement of participants².

It is also important to emphasize that more or less legal schemes of financial pyramid activities in modern realities are not limited to quasi-entrepreneurial methods. For example, in April 2012, the Ministry of Justice of Ukraine registered the political parties “We Have the Courage”, “We Have a Goal” and the National Public Organization “We Have a Future”³ (the names of which in Ukrainian are an abbreviation of MMM). And in summer of 2014, the Security Service of Ukraine found that the MMM pyramid financed the recruitment of mercenaries by terrorists in Donbass⁴. Therefore, it can be argued that in the current domestic realities, the public danger of financial pyramid activities is exacerbated, with, in addition to economic, also possible political implication, and becomes relevant in the context of the problem of the spread of transnational organized crime, which, first of all, needs to be decided immediately at the national level.

It should be noted that today, more and more, traditional Ponzi scheme financial pyramids (in which participants have personally brought and transferred funds and signed relevant contracts) are increasingly being replaced by the Internet pyramids, which allow to reach a large number of network users for lack of psychological contact with them, act anonymously, quickly disseminate information and in order to participate in which it is often necessary to simply transfer funds to the representative’s account without any contracts⁵. Moreover, such pyramids operate without registration of a legal entity or individual entrepreneur, and therefore their activity is outside the scope of the Law “On Consumer Protection”⁶ and, accordingly, to bring the organizers of such pyramids to responsibility under modern conditions is difficult enough.

Considering the domestic practice of financial pyramids’ functioning, Prokopenko V.Yu., Dubyna M.V. and Kovalenko K.O.⁷ distinguish the following types of financial pyramids:

deposit-taking institutions that attract the confidence of depositors and promise high interest rates on deposits. An example of a deposit financial pyramid is the largest in the history of Ukraine trust – the Mercury Consumer Society of Semyan Yufa, which operated in the 1990s. During the period of extreme inflation, the company offered 8000% per annum. As a result of the pyramid activities, about 25000 people lost at least 20 million US dollars;

lending institutions that offer very low interest rates or even interest-free loans. Typical examples of such schemes are group purchases, when monthly a person invests a small amount of money into a future apartment or car for the only possible chance of receiving it in future. As a result, after the accumulation of financial resources of the clients, the pyramid buys one or two objects and ceases to exist, and the majority of participants remain both without purchase and their own funds. An example of such an institution is PE “B.A.N.K. UA”, which in a mere three months of its activity withdrew from the Ukrainians an amount of more than 1.5 million UAH (and the company functioned for one and a half year);

Internet on-line brokers, whose activity is to participate in online auctions in the international currency and stock markets. An example is the financial pyramid, which operated in Donetsk region in 2013, and its victims were not only Ukrainians but also Americans and Russians. The criminal group created a veiled financial pyramid that attracted clients-investors through a network of brokerage firms and traded currency

¹ Мовчан, Р. О., Дудоров, О. О., Дацюк, В. Б. (2017). Кримінально-правова протидія створенню фінансових пірамід в Україні: сучасний стан і перспективи вдосконалення. *Юридичний науковий електронний журнал*, 2, 110.

² Князев, С. М. (2011). Фінансова піраміда: поняття та криміналістичні ознаки. *Юридичний часопис Національної академії внутрішніх справ*, 1, 33.

³ Кармазіна, М. (2014). Українські політичні партії: 2013. *Наукові записки Інституту політичних і етнонаціональних досліджень ім. І.Ф. Кураса НАН України*, 1 (69), 168.

⁴ Українські новини (2014). СБУ: «MMM» причетна до фінансування терористів <<http://ukranews.com/ua/news/256>> (2020, March, 13).

⁵ Мовчан, Р. О., Дудоров, О. О., Дацюк, В. Б. (2017). Кримінально-правова протидія створенню фінансових пірамід в Україні: сучасний стан і перспективи вдосконалення. *Юридичний науковий електронний журнал*, 2, 113.

⁶ Закон про захист прав споживачів, 1991 (Верховна рада України). *Офіційний сайт Верховної ради України*. <<https://zakon2.rada.gov.ua/laws/show/1023-12>> (2020, March, 18).

⁷ Прокопенко, В., Дубина, М., Коваленко, К. (2015). Особливості функціонування фінансових пірамід та їх вплив на розвиток ринку фінансових послуг України. *Бізнес Інформ*, 5, 229-230.

in Forex market. After a while, most clients' trading accounts were closed due to loss of funds by most customers as a result of non-profit trading. Payments to the accounts were made only to large clients, and the victims lost more than 200 000 US dollars on this scheme;

An internet pyramid, the essence of which is to send out e-mails with a quick money offer to the potential customers. An example of such a scheme can be found in December 2013, namely *Businessstheman*, from which citizens received e-mails inviting them to join the business program. Under the terms of the program, the initial contribution for entry into the "first part" of the program was 25 UAH. After paying this amount, the participant had to find other clients personally by sending e-mails, and for the funds received from new entrants the participant purchased the second part of the program for 50 UAH and kept looking for the clients, and so on. At the same time, participation in the program should have brought to its participant profit of about 750 million UAH;

elite business clubs. For example, in the early 2000s, the company "Liuvena", which seemed to be a charitable organization that invited successful entrepreneurs, lawyers, deputies to attend a meeting of a business club, where they offered to attend seminars on the art of quick enrichment. For successful start they offered to make a small contribution of 1500 US dollars for charity. During the aforementioned club meetings, new entrants were offered some privileges or bonuses in exchange for attracting other successful people from their community. In the course of their activities, the pyramid organizers used methods of psychological influence on potential participants, as a result of which a considerable number of clients of such organizations lost their money;

pyramid companies that lay a certain ideological base on their activities. In some cases, they even look like religious sects. For example, the financial institution King's Capital, which went bankrupt in 2008, raised about 180 million US dollars from people. The pyramid, led by the American Robert Fletcher, mainly involved the parishioners of the Embassy of God Church, whose pastor was Sunday Adelaja¹.

Therefore, summarizing the above, we can distinguish the most common features of the financial pyramid: as a rule, this is the absence of a license to engage in money-raising activities; aggressive advertising in media and the Internet with the promise of high profitability, which is several times higher than the market level; lack of any information on the financial position and founders and coordinators of such organization; the need to pay a registration fee or down payment; creation of a convincing legend of investments, illusion of deep analysis and scientific substantiation of investment policy, use of cover documents, in particular regarding the support of the project by public authorities, well-known international organizations, and implementation at the initial stage of all payments in order to create confidence in the reliability of the project²; the use of technically-equipped offices in prestigious areas of the cities, holding pretentious presentations, an established system of work with the clients; no risk warning or no risk statement whatsoever; existence of a clause in the contract stating that the company is not obliged to return funds to the participant (which, as a rule, are made as voluntary contributions, donations, etc.); emphasis on the urgency of investing with the psychological techniques of influencing the subconscious ("to get a high revenue, you need to invest today, within two days, before the end of the week, etc."), because the emotions, emotional exaltation mostly leads to deception.

Therefore, in order to prevent the spread of fraudulent pyramid schemes, we consider it necessary to carry out a set of measures, the following of which are the most important:

- legislative consolidation of the legal status of consumers of financial services and introduction of the concept of the financial pyramid into the domestic legislation;
- identification of the entities providing financial or any other services without a license (which will include continuous monitoring of the Internet environment) and strengthening the control over the issuance of licenses and supervision of such entities in the market;
- establishing more stringent requirements for advertising financial or any other services and prohibiting the advertising of structures that use pyramid schemes in their activities;
- publication of information on existing pyramid structures and projects, which will potentially limit the absorption of financial resources by Ukrainians (note, in our opinion, that the information component in counteracting the spread of financial pyramids is even more important than purely legal);

¹ Прокопенко, В., Дубина, М., Коваленко, К. (2015). Особливості функціонування фінансових пірамід та їх вплив на розвиток ринку фінансових послуг України. *Бізнес Інформ*, 5, 229-230.

² Чернявський, С. С. (2012). Законодавче забезпечення протидії створенню в Україні «фінансових пірамід». *Юридичний часопис Національної академії внутрішніх справ*, 2, 8.

– and the most important thing is to increase the level of financial literacy of Ukrainians by: conducting appropriate courses or classes on financial literacy at schools, vocational and higher education institutions, state establishments; placing media outlets in close cooperation with law enforcement agencies and regulators, etc. It is not a secret that today's fraudsters, unfortunately, continue to cynically use the financial illiteracy of our citizens, clamant defects in the financial market regulation system, they easily involve of senior officials and small officials, together with law enforcement officers and judges into the fraudulent schemes¹.

Therefore, we hope that the Ukrainian officials will listen to the recommendations of specialists and will finally fulfill the obligations undertaken to create a proper economic and legal mechanism in Ukraine to prevent activities of the financial pyramids, capable to secure savings that during such a difficult for our country period, still remain "in the pockets" of ordinary Ukrainians².

Conclusions. Finally, despite strong negative socio-economic consequences of financial pyramid activities in Ukraine, this problem remains one of the least researched in modern domestic financial science, due primarily to the lack of a clear ban on financial pyramid activities. However, it should be emphasized that neither adoption of relevant legal acts nor any economic reforms will be able to fully protect citizens from various types of fraud unless the Ukrainians directly seek to protect themselves and their families from fraudulent attacks. And in our opinion, the role of the state in solving this problem is extremely important.

Certainly, periodic crises, financial illiteracy and uncertainty in the future encourage people to take greater risks. However, it should be remembered that there are practically no legal official ways to obtain extremely high profits without implementation of fraudulent schemes, including pyramid schemes.

Therefore, only a thorough and systematic study of financial fraud and the financial pyramid as an economic, antisocial, unlawful (and often transnational) act will contribute to the development of effective measures to minimize it under current conditions.

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¹ Савченко, О. (2018). Що потрібно знати українцям про біткоїн та фінансові піраміди. *ХВИЛЯ* <<https://hvylya.net/analytics/society/bitkoyin-ta-finansovi-piramidi-v-ukrayini-i-sviti-shho-potribno-znati-ukrayintsyam.html>> (2020, January, 24).

² Мовчан, Р. О., Дудоров, О. О., Дацюк, В. Б. (2017). Кримінально-правова протидія створенню фінансових пірамід в Україні: сучасний стан і перспективи вдосконалення. *Юридичний науковий електронний журнал*, 2, 125.

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