



## Commonwealth of Kentucky Public Protection Cabinet

### Department of Financial Institutions

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## DFI Raises Awareness of Promissory Note Fraud

**FRANKFORT, Ky. (Nov. 15, 2018)** – As part of International Fraud Awareness Week, the Kentucky Department of Financial Institutions (DFI) is warning investors about the risks associated with investments in promissory notes.

Today, DFI is joining the North American Securities Administrators Association (NASAA) in issuing an investor advisory, found in DFI's [Breaking News](#) section.

The advisory reminds investors to be cautious of investing in short-term promissory notes. A promissory note is a written promise to pay or repay a specified sum of money at a stated time in the future or upon demand. Usually the notes are sold to sophisticated or institutional investors. However, promissory notes may also be offered and sold to retail investors.

Investors should be especially cautious about promissory notes with durations of nine months or less, as these notes generally do not require federal or state securities registration. Such short-term notes have been the source of most, though not all, of the fraudulent activity involving promissory notes.

Many investors have filed complaints with state securities regulators regarding promissory notes. NASAA, in which DFI is a member, reported 210 investigations involving promissory notes, which led to 149 formal enforcement actions by state securities regulators last year.

DFI's Securities Division has averaged about four cases per year involving promissory notes over the last three years. The facts of these cases are widely varied, ranging from investing in a start-up ETF to helping fund an insurance company expansion.

"Promissory notes are used to promote a wide variety of investment opportunities. However, as with any type of investment, some promissory notes may be fraudulent," said DFI Securities

Division Director Marni Gibson. “Investors should choose products that meet their overall strategy and watch out for red flags of fraud.”

Before making any financial decisions, consider doing the following:

- Understand risks,
- Research the product (due diligence),
- Follow sound investment strategies, including diversification, and
- Check out the product and the investment professional selling it by contacting DFI’s Securities Division at 800-223-2579 or <http://kfi.ky.gov/public/Pages/invest.aspx>.

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*DFI, <http://kfi.ky.gov>, is an agency in the Public Protection Cabinet. For more than 100 years, it has supervised the financial services industry by examining, chartering, licensing and registering various financial institutions, securities firms and professionals operating in Kentucky. DFI’s mission is to serve Kentucky residents and protect their financial interests by maintaining a stable financial industry, continuing effective and efficient regulatory oversight, promoting consumer confidence, and encouraging economic opportunities.*