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## FRAUDULENT PRACTICES IN TRADING FINANCIAL INSTRUMENTS ON CAPITAL MARKETS

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**Rezumat:** *Lucrarea analizează practicile abuzive și frauduloase întâlnite pe piața de capital din România, accentuând impactul asupra investitorilor și încrederii acestora în piață. Sunt prezentate principalele tipologii de fraude financiare, de la insider trading și scheme Ponzi, până la fraude digitale recente. Studiul de caz comparativ între fraudă tradițională Harinvest și fraudele digitale relevă diferențe semnificative în mecanism, amploare și dificultatea de detectare. De asemenea, printr-un chestionar aplicat investitorilor se evaluează gradul de conștientizare asupra riscului de fraudă și rolul educației financiare. Rezultatele indică vulnerabilități majore, dar și oportunități pentru consolidarea măsurilor de protecție.*

**Cuvinte cheie:** piața de capital, fraude financiare, educație financiară, investitori

**Abstract:** *The paper analyzes abusive and fraudulent practices encountered on the Romanian capital market, emphasizing their impact on investors and their trust in the market. The main types of financial fraud are presented, ranging from insider trading and Ponzi schemes to recent digital frauds. The comparative case study between the traditional Harinvest fraud and digital frauds reveals significant differences in mechanism, scope, and detection difficulty. Moreover, through a questionnaire applied to investors, the study evaluates the level of awareness regarding fraud risk and the role of financial education. The results indicate major vulnerabilities, but also opportunities for strengthening protection measures.*

**Keywords:** capital market, financial frauds, financial education, investors

**JEL Classification:** G23, G41

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## INTRODUCTION

The prudent management of financial resources has become one of the most significant concerns for contemporary investors, given the wide range of risks they face, from market fluctuations to fraud attempts. However, mere awareness of these risks is not sufficient; a deeper understanding of how abusive and fraudulent practices influence the functioning of the capital market and undermine investor confidence is required.

The relevance of this topic lies in the fact that fraud methods are becoming increasingly sophisticated as technology evolves, endangering not only vulnerable investors but also the overall stability of financial markets. In this context, the main objectives of the research are twofold: first, to raise awareness of the risks posed by fraud, and second, to encourage higher levels of vigilance and protection among investors.

This study builds on the hypothesis that digitalization has fundamentally transformed financial fraud, making it more complex and harder to detect compared to traditional forms. At the same time, the analysis examines whether intermediaries devote sufficient attention to informing their clients and whether financial education can serve as an effective tool in protecting against fraudulent practices.

The proposed structure combines theoretical and applied perspectives: the first chapter outlines the fundamentals of capital markets and fraud mechanisms, while the second chapter provides a practical view through a comparative analysis of traditional and digital fraud. Furthermore, the inclusion of a questionnaire addressed to retail investors aims to measure the level of awareness regarding fraud risks and to identify behavioral patterns that may expose investors to vulnerabilities in the event of fraudulent attempts.

### 1. DEFINING THE RESEARCH PROBLEM

The phenomenon of financial fraud in capital markets represents a complex and increasingly prevalent issue in the digital era, fundamentally transforming how these markets function and affecting investor confidence. Financial fraud is broadly defined as acts and statements through which market participants deliberately or recklessly misinform or mislead others by providing false, incomplete, or manipulative information about financial goods, services, or investment opportunities, violating regulatory, statutory, civil, or criminal laws.

The core research problem is to identify and analyze how financial frauds have evolved, especially under the influence of rapid digitalization that increases transaction complexity and expands the global scope of fraudulent activity. Recent studies highlight a similar trend at the international level, emphasizing that digitalization accelerates both the complexity and the frequency of fraudulent schemes. For example, research by Jory & Perry (2011) analyzes the structural vulnerabilities exploited in Ponzi schemes, while Albrecht et al. (2015) emphasize the evolution of fraud mechanisms in relation to advancements in technology and weaknesses in internal controls. Furthermore, Banks (2001) discusses how electronic finance opened new opportunities for cyber-fraud by increasing transaction anonymity and reducing regulatory visibility. These studies support the idea that fraudsters increasingly rely on technological tools, automated bots, deepfake impersonation, and falsified digital identities, to bypass traditional oversight mechanisms, thus reinforcing the need for upgraded detection and prevention strategies.

Additionally, the problem includes assessing investor awareness, preparedness, and behavior regarding fraud risks, which have major implications for market stability. A lack of adequate financial literacy and insufficient information provided to investors increases their vulnerability to illegal practices.

Thus, the research problem focuses on evaluating how the Romanian capital market and its participants confront the risks of financial fraud under current digital conditions, aiming to



identify fraud mechanisms, assess impacts on investors, and evaluate the efficiency of existing prevention measures.

This delimitation enables the formulation of hypotheses concerning major differences between traditional and digital frauds, the role of financial education in prevention, and the necessity for stronger cooperation between authorities and intermediaries to protect investors safely.

## **2. PRESENTING THE RESEARCH FINDINGS**

### **2.1. Comparative Analysis of Traditional and Digital Frauds**

For traditional fraud analysis, we used the Harinvest case (2013), one of the most significant financial scandals in Romania, with losses of approximately 20 million Lei affecting over 100 investors. For digital frauds, we analyzed the fraudulent platform Brua.ro (2024-2025), which exploited interest in energy infrastructure investments. The comparative analysis between the Harinvest case (traditional fraud) and contemporary fraudulent digital platforms reveals a fundamental transformation in the nature of capital market fraud.

Traditional frauds are characterized by: direct manipulation mechanism (unauthorized portfolio sales), limited number of victims (geographically concentrated), relatively easy detection through audit and controls and localized impact and direct criminal prosecution.

In the Harinvest case, the mechanism was simple but devastating: brokers executed 798 unauthorized transactions to cover their own losses, directly harming 100 clients. Detection was possible through obvious discrepancies between false reports offered to clients and the actual portfolio situation. This case also demonstrates that prevention is significantly more effective than the subsequent coverage of losses. The financial impact borne by investors was disproportionately higher than the value of administrative sanctions applied by the FSA during the same period, illustrating an unfavorable ratio between regulatory penalties and the compensation required from the Investors Compensation Fund. While FSA fines totaled only several tens of thousands of lei, investor losses exceeded 20 million lei, confirming that punitive measures cannot offset the damage once the fraud materializes. Several preventive actions could have mitigated or even avoided the Harinvest losses: investors could have regularly verified portfolio statements directly through the Depozitarul Central platform, monitored unexplained variations in holdings, requested periodic confirmations from the custodian bank, and reported inconsistencies early to the FSA. Strengthening verification habits and adopting a proactive attitude toward transparency would have provided warning signals well before the fraud escalated.

Beyond the direct financial implications, the Harinvest case highlights the structural weaknesses that make traditional frauds possible and reinforces the need for a culture of continuous risk assessment among investors. The lack of transparency in communication, the absence of real-time monitoring tools accessible to retail clients, and the overreliance on intermediaries created an environment where irregularities could escalate unnoticed. A more robust investor protection framework would require not only regulatory surveillance but also empowering investors with practical instruments such as automated portfolio alerts, independent reconciliation tools, and mandatory quarterly confirmations issued directly by the custodian. Additionally, collective reporting mechanisms where multiple investors quickly flag anomalies could have accelerated the detection of the unauthorized transactions. These systemic improvements show that preventing fraud is not only an individual responsibility but also a coordinated effort between investors, intermediaries, and supervisory institutions.

Modern digital frauds present radically different characteristics: sophisticated psychological manipulation (promises of 10,000 USD gains in a few days), unlimited area of potential victims, extreme difficulty in detection and tracking, use of modern technologies (deepfake, AI for generating credible content).

The Brua.ro platform perfectly exemplifies this evolution, using professional design, psychologically calculated promises, and exploiting legitimate interest in energy infrastructure in investments.

## 2.2. Fraud prevention method – sanctions

The main method of preventing fraud in the capital market is the careful verification of the identity and authorizations of intermediaries or investment platforms before transferring funds or providing personal data. Investors must work exclusively with investment firms authorized by the Financial Supervisory Authority and avoid any relationship with unauthorized individuals or entities. In the recent period 2020–2025, the Financial Supervisory Authority has consistently sanctioned intermediaries who engaged in improper conduct, thus contributing to the reduction and discouragement of this phenomenon.

**Table no.1 - Summary of FSA activity regarding sanctions imposed on intermediaries over 2020-2025 in conjunction with potential fraudulent practices**

Period	Total sanctioned intermediaries	No. warnings	No. fines	Value of fines (LEI)
2020	0	0	0	0
2021	6	5	1	10.700
2022	8	5	3	141.100
2023	5	4	1	59.400
2024	8	0	8	343.290
2025	3	1	2	90.450

*Source: Author's projection*

Between 2020 and 2025, the sanctions applied by the SFA to intermediaries targeted both administrative deficiencies and abusive practices or even suspicions of fraud.

In the early years (2021–2022), most irregularities were related to incomplete or incorrect reporting to the SFA and difficulties in managing financial assets, without constituting actual fraud. The situation gradually changed: in 2023, S.S.I.F. Prime Transaction S.A. was fined for unauthorized proprietary trading, exceeding the limits of its license, which can be considered an abusive practice.

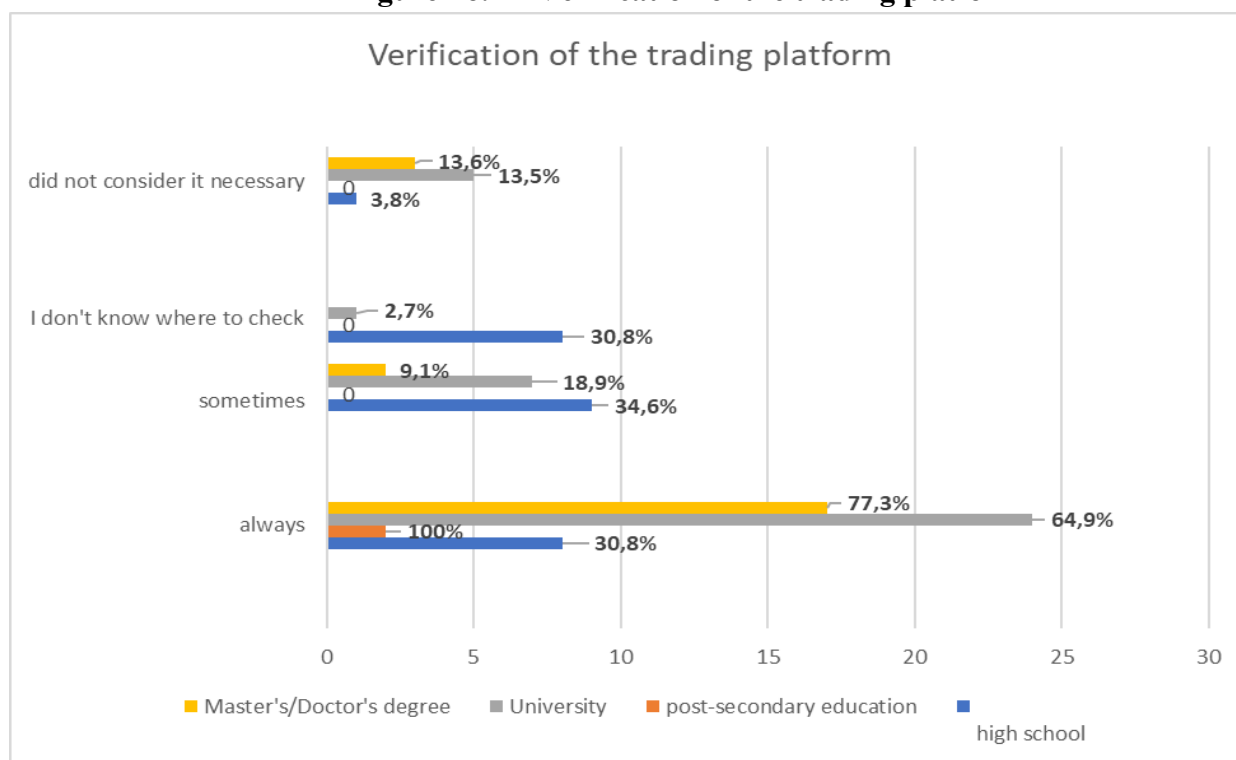
In 2024, the severity of irregularities increased, with some firms (BRK, Share Invest) being sanctioned for publishing erroneous financial statements and providing false information to the FSA, aspects that go beyond simple non-compliance. In 2025, the case of S.S.I.F. Goldring S.A. raised concerns regarding certain fund inflows that had not been reported to the authorities. Nevertheless, these circumstances were subsequently regarded primarily as reporting inconsistencies and compliance shortcomings, rather than as manifestations of actual financial fraud.

### 2.3. Study on assessing the level of awareness of the risk of fraud among investors

This subsection presents the interpretation of the results of a questionnaire conducted online on various platforms such as Facebook, Instagram, and Reddit, aimed at assessing the level of awareness of investment fraud risk and the behavior of investors in the face of fraud. The analysis of the responses will allow the identification of potential information gaps as well as the factors influencing vulnerability to such schemes.

Through this research, the goal is not only to highlight the current level of awareness but also to establish recommendations for increasing financial education and the self-protection capacity of online investors. The timeliness and relevance of the topic are supported by the growing number of reported cases and the ongoing need to adapt prevention strategies to new forms of fraud emerging in the digital environment. In this questionnaire, 87 responses were collected.

**Figure no.1 – Verification of the trading platform**



*Source: Author's projection*

The analysis of 76 investor respondents reveals a notable paradox in the relationship between formal education and practical financial behavior. Despite the high educational attainment among participants, 69% possessing university or postgraduate degrees and 44.8% specializing in economics, the practical application of knowledge remains inconsistent. Only 64.9% of university-educated respondents always verify the authorization of investment platforms, while 30.8% of those with only high school education are unaware of where to check such authorizations.

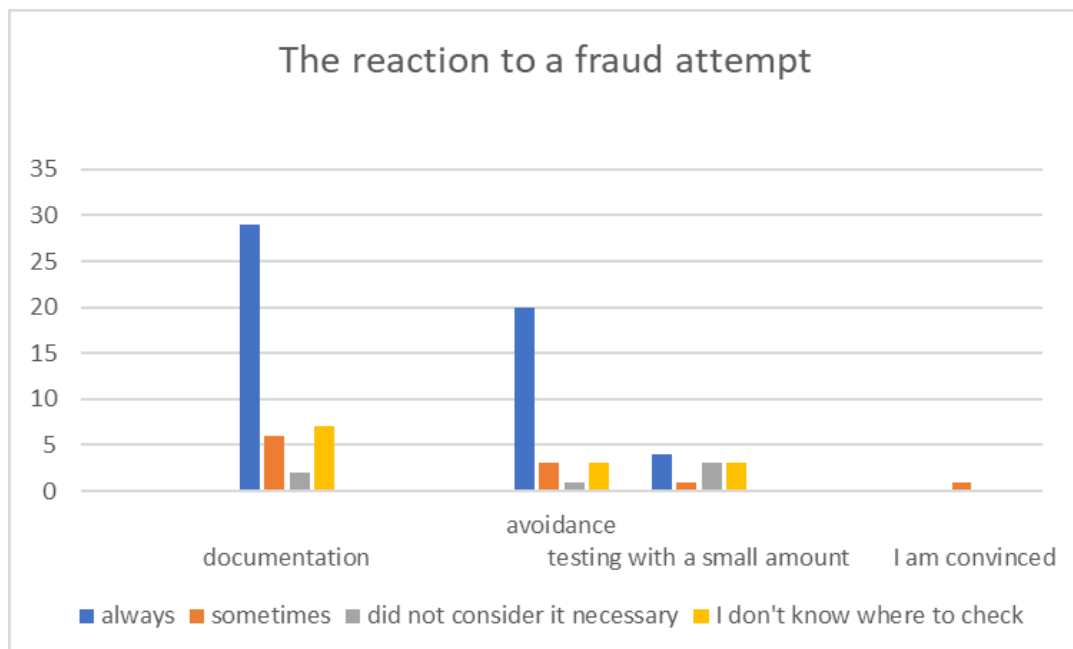
**Figure no.2 – Investment experience and risk tolerance**



Source: Author's projection

Several vulnerability factors emerge from this data. Age and experience significantly influence risk exposure, with investors under 25 and those with 1–5 years of experience exhibiting the highest susceptibility; 33.3% of investors with less than one year of experience tolerate high-risk investments, and 42.1% expect annual returns of 10–20%, often testing suspicious offers with small amounts. Unrealistic expectations further exacerbate vulnerability, as 18.4% of respondents anticipate returns exceeding 20% annually, rendering them particularly prone to schemes promising “too good to be true” profits.

**Figure no.3 – The reaction to a fraud attempt**



Source: Author's projection



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Excessive confidence in personal knowledge also represents a critical factor, as evidenced by the observation that four of the six identified victims possess higher education, including economic specializations, indicating that overconfidence may be as detrimental as ignorance. Behavioral responses to hypothetically “unusually profitable” offers reveal mixed patterns: 64% adopt prudent measures, including thorough documentation, avoidance, and consulting experts, whereas 36% engage in risky behaviors, such as testing small amounts or accepting offers that appear professional. Importantly, the correlation between self-reported financial education and actual protective behavior is weak highlighting that theoretical knowledge does not automatically translate into safe investment practices.

### 3. CONCLUSIONS

This study demonstrates that fraud in Romania's capital market has undergone significant evolution, shifting from traditional schemes based on direct manipulation to sophisticated digital frauds that exploit both psychological and technological vulnerabilities. While the digital transformation of the market has improved accessibility and efficiency, it has simultaneously introduced new channels for fraudulent activity. The analysis supports three key observations.

First, digital frauds are demonstrably more complex and harder to detect than traditional schemes, spreading at an exponentially higher rate and taking advantage of systemic weaknesses in the current digital infrastructure. Second, the existing investor protection framework, although imperfect, proves effective when sanctions are properly applied: the enforcement of clear rules and administrative penalties by the Financial Supervisory Authority has a measurable preventive effect, highlighting the importance of regulatory oversight in maintaining market integrity. Third, despite a high level of formal education among investors, practical application of financial knowledge remains limited, and overconfidence can be as detrimental as lack of understanding. Addressing these challenges requires a comprehensive strategy that modernizes regulatory frameworks to keep pace with technological innovation, strengthens intermediary accountability through robust protection standards, translates financial education into practical skills, and fosters a culture of vigilance and verification among investors.

Ultimately, success depends on the ability of the system to anticipate emerging fraud methods, adapt faster than perpetrators, and cultivate transparency and accountability across all levels of the capital market.

The research conducted has several limitations that need to be mentioned. Firstly, the questionnaire application showed that not all respondents answered honestly or accurately, with some avoiding admission of having been victims of fraud, which partially affected the data quality. Also, some participants were individuals who do not actually invest in the capital market, and their responses somewhat distorted the results. The sample size of 87 participants is relatively small, making it difficult to generalize the findings to the entire Romanian capital market. Moreover, the research focused mainly on retail investors in the online environment, leaving the perspective of institutional investors, who play an important role in market functioning, less explored. Another limitation is that the analysis of Financial Supervisory Authority sanctions and digital fraud only covered the period 2020–2025, which does not fully capture long-term trends and the ongoing dynamics of this phenomenon.

At the same time, these limitations can be seen as opportunities for future research. It would be useful to conduct a study on a larger and more diverse sample, including both institutional and professional investors, to obtain a more comprehensive picture of existing vulnerabilities. Additionally, a comparative international analysis could highlight differences in how fraud is managed in other capital markets compared to Romania, revealing best practices that could also be implemented locally. Moreover, qualitative methods, such as interviews with defrauded investors, brokers, or Financial Supervisory Authority representatives, could provide

more detailed and nuanced insights into the reality of the phenomenon. Future studies might also track the evolution of fraud risk awareness over time through longitudinal analyses, as well as the impact that new technologies (artificial intelligence, blockchain, or fintech) might have on preventing and combating abusive practices. It would also be of interest to test financial and digital education programs dedicated to investors to evaluate their effectiveness in increasing protection levels and developing a safer and more transparent investment environment.

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