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- People need funding be it to finance a business, a need, program, or project;
- Traditional forms of finance has been to resort to banks (and non banks financial institutions) for loans;
- As traditional financial institutions have undertaken de-risking efforts in recent years, other avenues of lending and banking have emerged;
- Private Equity is another way of raising funds but it requires time and effort to persuade investors to invest in a venture;
- Private Equity investors are likely to require financial records, business plans and track record before agreeing to invest into a project;
- The process of raising funds through PE is also very formal requiring a Prospectus or Private Placement and the use of intermediaries;
- To overcome the complexities of traditional funding sources, peer-to-peer lending is becoming the new buzz for the raising of capital.

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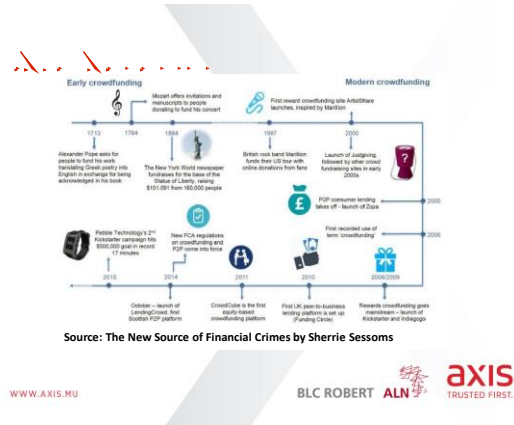
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- Crowdfunding is a form of peer-to-peer lending (P2P) which is the practice of lending money to individuals or businesses through online services that match lenders with borrowers.
- It is however broader than P2P as it is not limited to the provision of loans but also equity and grants or donations to those in need of funding;
- Typically, it is the practice of funding a project or venture by raising money from a large number of people who each contribute a relatively small amount, typically via the Internet;
- The development of the internet and specially apps and social media have made it really easy for fundraising through crowdfunding;
- It is quickly becoming one of the main avenues for individuals and small businesses to raise capital online for a number of projects;
- Crowdfunding platforms have proliferated over the past few years.

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- The main player in a crowdfunding program will be the project initiator who is the one who is coming up with the project;
- At the other end of the spectrum will be the donors or investors (depending on whether this is a fundraising for profit or not) who will be interested in providing the funding;
- The success of the crowdfunding program will require the use of a crowdfunding platform who brings matches the initiator and project with the donors or investors;
- The initiator will begin by preparing his pitch which will contain the details of the project, the funding goal, the funding deadline and information about the return and rewards (if any);
- He will then select his platform and submit his pitch to the platform for screening;
- If the platform accepts the pitch, the pitch will then go live and the funding window will open;
- The public will then pledge money to the project;
- The initiator will then use the money pledged to fund his project;



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- The three main risks associated with crowdfunding are:

FRAUD



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- The initiator solicits or accepts funding while deliberately and deceptively concealing or misrepresenting the true nature of the project or expected results;
- Backers commit to financing the project with the intent of backing out of the campaign either to:
 - o "tank" the project; or
 - o because they have received already received their reward which had been provided as an incentive;
- The platform operator colludes with the initiator to defraud the backers;
- An initiator uses one or more crowdfunding platform to raise funds from a number of stolen credit cards that are then paid back to him;

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- The fraudulent activities referred to in the previous slide will also lead to money laundering as the funds will in all likelihood represent "proceeds of crime"
- In addition, backers may use the anonymity that the web offers and the opportunity to invest small amounts as a positive attempts to launder illegally obtained funds;
- This could be through collusion with the platform or simply due to lack of expertise from platform operators to conduct customer due diligence and ongoing monitoring on initiators and backers;
- The use of pre-paid credit cards may be used so that small amounts of cash arising from illegal activities are deposited on the cards and then transferred through a crowdfunding platform to the backer;
- These methods may be combined with the use of cryptocurrency to provide a further level of anonymity;
- An initiator may also conspire with backers to invest funds in a fictitious business under the façade of a transaction;
- This method can be used to funnel illegal activities such as drug dealing, illegal arms dealing and terrorist financing.


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- Have a thorough understanding of the client's project and ensure that it is legitimate and not a fictitious business;
- Ensure that the investors are identified and that the source of funds is legitimate. Where these checks is being done by the 3rd party crowdfunding platform, ensure that their CDD requirements are satisfactory;
- Ensure that the investors are informed about the risks associated with crowdfunding and have a good understanding of financial products;
- Appropriate disclaimers should be used to warn the investor of the risks associated with the type of investment;
- Crowdfunding service providers and project owners should disclose a comprehensive set of information for each crowdfunding offer in a clear and transparent way to allow investors to assess the risks before investing;
- Ensure that there is ongoing monitoring of the transactions and of the progress of the project;
- Where the client is the operator of the crowdfunding platform, ensure that it has the necessary systems and procedures in place to on-board investors and to ascertain their source of funds;
- Ascertain whether that is any connection between the various stakeholders of the crowdfunding as this will be a red flag.


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