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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:
 - "tank" the project; or
 - 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 attempt 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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