



**NIGERIAN FINANCIAL INTELLIGENCE UNIT**

# **ADVISORY**

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## **ADVISORY ON PONZI SCHEME AND OTHER UNRELATED PUBLIC CROWD FUNDING INVESTMENT SCHEMES**

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The Nigerian Financial Intelligence Unit (NFIU) In fulfilment of its obligations on the timely provision of guidance to Reporting Entities and Competent Authorities (CA) publishes Indicators and advisory on crimes of money laundering and terrorist financing in an effort to guide Reporting Entities and Competent Authorities on observable trends and patterns to mitigate AML/CFT/CPF threats.

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## Abstract

This advisory explores the patterns of Ponzi schemes and unregulated public crowd funding investment schemes and the usage of this fraudulent investment schemes to defraud innocent citizens. This fraudulent scheme pays its investor's higher returns as such many people engage in this deceitful activity. According to Nigerian Securities and Exchange Commission (NEC) in March 2021 over three million Nigerians have lost about N18 billion to Ponzi schemes and other illegal investment schemes. Ponzi scheme organizers often promise to invest your money and generate high returns with little or no risk instead, they use it to pay those who invested earlier and may save some for themselves at the early stages before the Ponzi pyramid crashes. There seems to be a gap in the existence of AML/CFT related literature on Ponzi schemes and this advisory will fill that void. This advisory shall also look at the legal ramifications for parties involved in Ponzi schemes; this includes an overview of regulatory frameworks, as well as, actions of regulatory bodies against perpetrators. The result of these findings is aimed at informing and educating both the law enforcement and anti-corruption agencies about Ponzi perpetrators and other unregulated public crowd funding investment schemes in the face of ruthless economic realities.

## 1.0 Background

According to the African Development Bank Group (ABD),<sup>1</sup> Nigeria has had a sluggish economic growth since the end of 2015 with the rate dropping to an estimated 3% in December 2015, hence, leading the government to adopt an expansionary budgetary system in 2016 in order to stimulate the economy<sup>2</sup>. Systemically, Nigeria's economy slid into a serious economic crisis affecting mostly youths as disposable income crashed due to an unbearable inflation coupled with job losses that resulted thereof. Nigeria degenerated into recession in the second quarter of 2016 after two successive quarters of negative growth<sup>3</sup>. This worsened unemployment rate that led to job loss, enormous hunger and starvation in the country and thus, the rise of dishonest easy money-making schemes with promises of high rate of returns on investments.

The aim of these advisory is to enlighten the government, security and regulatory agencies on risk posed by Ponzi schemes and other unregulated Crowd funding investment schemes which is designed to defraud innocent members of the public. This advisory is categorized into three parts. The first part will focus on Ponzi scheme and while the second part will look at unregulated public crowd funding investment schemes and finally the last part of this advisory will offer some recommendations that will help regulate and mitigate the risk posed by ponzi scheme and unregulated public crowd funding.

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<sup>1</sup>The Lead your news '[Nigerians lose N18b to Ponzi schemes | The Quick Read](#)' 3 March 2021 (Accessed 11.10.2021)

<sup>2</sup>Premium Times (2016), Nigeria "Technically in Recession" Published July 21st, 2016. [Nigeria "technically in recession" – Finance Minister | Premium Times Nigeria \(premiumtimesng.com\)](#)

<sup>3</sup>Premium Times (2016), Nigeria. (Available at [www.premiumtimesng.com](http://www.premiumtimesng.com) ( ))

## 2.0 Ponzi Scheme

Ponzi scheme is a type of investment scam that uses money from new investors to pay off earlier investors, while promising high rates of return. Ponzi schemes largely rely on a constant stream of new investors to maintain returns of the investment, and tend to collapse when new investors are not available, or when existing investors ask to cash out their investment.<sup>4</sup> A number of these ‘easy money making’ ventures in the form of Ponzi sprang up. This is evident in the turbulent economic growth rates and significant decline in economic activities in the country, resulting in increased hardship, rising unemployment, low output, falls in availability of credit, rising inflationary pressures.<sup>5</sup> Hence, the need for Nigerians to devise strategies to cope with these sad economic realities becomes pertinent.

The Securities and Exchange Commission (SEC) reported in March 2021 that, over three million Nigerians have lost about N18 billion to Ponzi schemes and other illegal investment schemes.<sup>6</sup> It described the continued activities of Ponzi schemes which posed a serious threat to investors, the functioning of robust and orderly financial market, as well as economic development. Moreover, there is a sharp rise in crowd funding market as businesses engage in these platforms for the purpose of raising capital.<sup>7</sup>

## 2.1 Features of Ponzi scheme

Ponzi schemes tend to follow a trajectory irrespective of their sizes. Some of the features with which Ponzi schemes run their courses include:

- **Schemer:** Fraudulent activities are initiated by a schemer who offers to invest in a business that is a front, or boast a new idea that is fabricated

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<sup>4</sup>The Free Dictionary, [Ponzi Scheme legal definition of Ponzi Scheme \(thefreedictionary.com\)](https://www.thefreedictionary.com/Ponzi+Scheme)(Accessed 13.10.2021)

<sup>5</sup> Ejikeme Jombo Nwagwu, ‘UNEMPLOYMENT AND POVERTY IN NIGERIA: A LINK TO NATIONAL INSECURITY’, Global Journal of Politics and Law Research Vol.2, No.1, p22-32, March 2014.

<sup>6</sup>The Cable “[SEC: 3 million Nigerians lost N18bn to ponzi schemes | The Cable](https://www.thecable.com/news/3-million-nigerians-lost-n18bn-to-ponzi-schemes)” (Accessed 12.10.2021)

<sup>7</sup>Nigeria’s Crowdfunding Regulations: Impact On Fundraising <https://www.mondaq.com/nigeria/financial-services/1031656/nigeria39s-crowdfunding-regulations-impact-on-fundraising> 01.02.2021

- **Potential Investors** This raises the appetite of potential investors due to the attractive returns promised at specific dates.
- **New Sources:** New sources of income will be explored as the dubious investment strategy is generating little or no profit. The schemer is forced to generate an ever-increasing amount of money to satisfy early investors.
- **Perceived Credibility:** Return to investors is paid in full and on time thereby gaining the trust of the investors. This scheme starts rolling as satisfied investors begin to promote the scheme without a public advertisement.
- **Reinvestment:** Most of the key players in a Ponzi scheme are repeat players who add to their investment making it possible for the schemers to defy the odds. Consequently, these re-investments are the reasons for a longer lifespan of these schemes.
- **Decline:** A Ponzi scheme can end in several ways. The most common pattern is a scenario where the schemer disappears with the money, the fraud is detected by authorities and shut down.

## 2.2 Techniques used in carrying out Ponzi scheme

The perpetrators of Ponzi Schemes use different forms and tactic especially on various advertisement platforms like Snapchat, Facebook, Instagram, and Telegram, WhatsApp groups, television and radio programs, sometimes host seminars and distribute fliers to invite members of the public or targeted potential investors. The diagram below explains in detailed how the ponzi scheme works.

# HOW A PONZI SCHEME WORKS

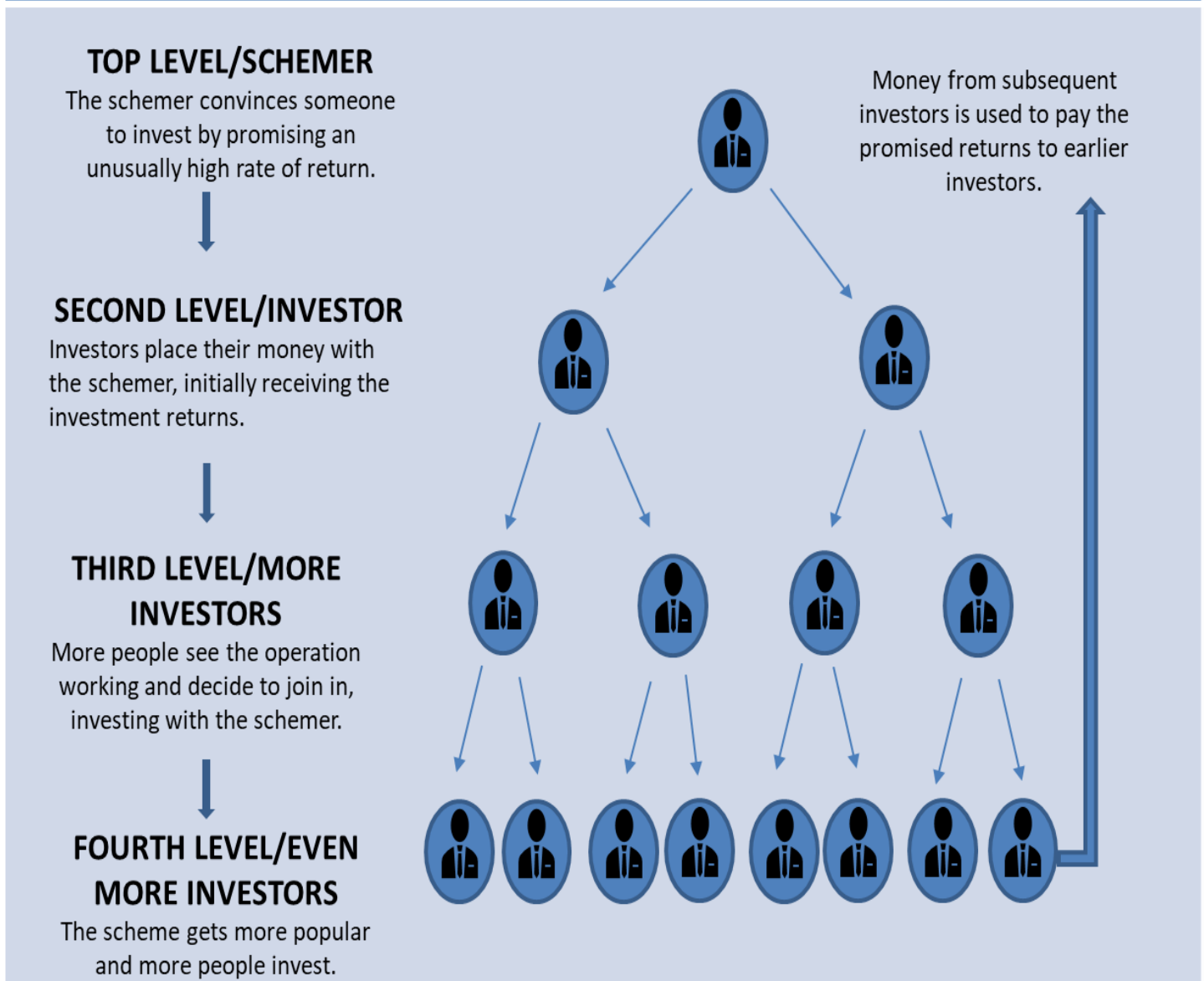


Figure 1: Ponzi scheme<sup>8</sup>

<sup>8</sup> Strategic Analysis and Economic Interest Department (NFIU)

2.2.1 Case Studies on Ponzi scheme

Case Study 1	Red Flags and Indicators
<p>Company ‘Y FOREX ltd’ was incorporated on March 14, 2018 at CAC to carry out FOREX trading. The CBN has only granted the firm an approval in principle (AIP) as a Bureau De Change (BDC) subject to final approval before commencement of business. In June 2019, the company applied to CBN for license to become a finance company. In July 2019, the firm also applied to SEC to be registered as a fund portfolio manager. Both applications weren’t granted to the company. In September 2019, Company Y increased its shareholding with CAC and changed its name from Y FOREX ltd to ‘Y Trading and Capital Investment ltd’. The firm reapplied to SEC to be registered as a fund portfolio manager. SEC didn’t grant the company license but requested documents from the firm to process registration. The firm incorporated 17 subsidiary companies between March, 2018 to December, 2020. Within above timeline, the firm had opened several accounts with different accounts in same and different banks in Nigeria.</p> <p>NFIU Analysis revealed a combined inflow of N82, 962,658,452.12 and outflows of N82, 825,050,536.06 for the period under review: 2018-October 2020. Major inflows into the account were deposits by multiple individuals and corporate entities for investments. Funds in the account were used for purchase of properties, trucks,</p>	<ul style="list-style-type: none"> <li>• Rapid patterns of deposits and withdrawals of funds from the XXX Cooperative account.</li> <li>• No evidence of legitimate business transaction between parties.</li> <li>• Volumes of aggregated activities inconsistent with the expected purpose of account conveyed at on boarding.</li> </ul> <p>Method of Transaction</p> <ul style="list-style-type: none"> <li>• Multiple wire transfers</li> </ul>



payments to construction companies, transfers between customers et al.

80% of the funds in the accounts were used for trading/transactions. The firm convinced most of their investors to invest in them by presenting correspondences from SEC and CBN as legitimate documents even though not properly licensed.

## Case Study 2

## Red Flags and Indicators

XXX Cooperative account opened at XY state on 08/03/2012. The customer is a multipurpose cooperative society.

On 09/03/2021, subject XXX Cooperative received a transfer deposit of N380, 000,000.00 in one tranche of N200, 000,000 and N180, 000,000.00 from XY Blockchain. The XXX Cooperative account also received N300, 000,000.000 from XY Blockchain on 18/03/2021 followed by several outward transfers to different individual beneficiaries on 24/03/2021.

XXX Cooperative also received inflow of N3, 000,000.00; N2, 400,000.00 and N2, 000,000.00 from KK Gold account, DF account and AY account respectively from 05/07/2021 to 07/07/2021.

Further review of XXX Cooperative account shows outward transfers in tranches of (N35,000, N70,000, N105,000etc) to three different accounts and several individual beneficiaries upon receipt of funds from XY Blockchain showing a red flag of a Ponzi Scheme. The XXX Cooperative

- Carrying out trading and investment business without a valid license from relevant authorities.
- Presenting incomplete documents to investors to gain their trust and acceptance.
- Large inflow and outflow of cash from and to individuals and entities without any established relationship within a short period of time.
- Investing investors' money in cash-based businesses to hide the destination of funds such as real estates, Agriculture, Non-Profit organizations and transport businesses.
- Incorporating multiple subsidiary companies to create a complex structure for laundering funds which could be used for illegal purposes such as financing of terrorism
- Using approval in principle from the CBN to open multiple types

also has rapid movement of funds within a short period of time. The total inflow and outflow on the XXX Cooperative account is N1, 820, 084,867.58 and N1, 820,016,404.27 respectively.

of accounts in same and different bank hide funds.

- Promises of high return on investment to their clients.

Method of Transaction

- Multiple wire transfers

### 2.3 Generic Red flags and Indicators of a Ponzi Scheme

- ❖ Most of the sellers/investors are not registered with the relevant regulatory authorities.
- ❖ Investors promise customers high returns of investment sometimes as outrageous as 200%.
- ❖ Lack of time to conduct due diligence during registration between investors and brokers because most of the schemes are online.
- ❖ Promise of consistent positive returns even amidst recession or economic difficulties.
- ❖ Difficulty in receiving return payments because of promises of high returns. This makes customers recycle both their capital and profit.
- ❖ Most of the schemes are not transparent to reveal the nature of business. Thus, they come up with a secretive and/or complex strategies and fee structures.
- ❖ Sudden change in pattern of transactions.
- ❖ High turnover of cash within a very short period of time without substantive proof to justify transactions.
- ❖ Various cash deposits and withdrawals of funds to different individuals without any link.
- ❖ Customers deviating from conducting businesses contained on the memorandum and Article of Association (MEMART) of their companies.
- ❖ Customers investing in FOREX businesses and generating high returns.
- ❖ Customers using companies to invest client’s money without duly registering with relevant authorities.

- ❖ Sudden inflow of huge cash into customer's account.
- ❖ Structured outflow of cash from customer's account to various individuals.
- ❖ Customers engaging in business with known Ponzi scheme operators.
  
- ❖ Always check with Corporate Affairs Commission (CAC) to authenticate existence of businesses before making an investment.
- ❖ Study and monitor proposed businesses to validate activity and operations.
- ❖ Every investor should check out their broker before beginning a relationship to validate proper registration with Nigerian Stock Exchange Commission (NSEC), Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN). It is similarly wise to search and obtain records which include disclosures of any claims against them and how they were resolved, as well as their licenses, work history and other important details.
- ❖ Always investigate potential investment companies or professionals as fully as possible before committing to any moneymaking opportunity.
- ❖ Remain vigilant, evaluating your broker constantly with any red flags in mind. Do not accept excuses for inconsistencies.
- ❖ Always ask questions for clarity as most dishonest businesses are complicated in nature.

## 2.4 Examples of Ponzi scheme in Nigeria

- ❖ Get Help World Wide
- ❖ MMM Nigeria Ponzi Scheme Company
- ❖ Clarritta
- ❖ Twinkas
- ❖ NNN Nigeria,
- ❖ Community mutual Aid
- ❖ WealthFundz
- ❖ RevoSquad,
- ❖ PairMe, Liberty Funds
- ❖ Foster Funds,

- ❖ Galaxy Transport,
- ❖ Zigma etc.
- ❖ MBA Trading.
- ❖ Swiss gold

## 2.5 Vulnerable Sectors engaged by Scammers in carrying out Ponzi Crimes

- ❖ Real estate sector
- ❖ Agricultural Sector
- ❖ Construction sites
- ❖ Foreign Exchange Trading (FOREX)
- ❖ Transportation Sector
- ❖ Gold mining Sector

## 3.0 Existing Legal Frameworks on Ponzi Schemes in Nigeria

The law recognizes the adverse effect Ponzi schemes have had in the economy. For this reason, Section 67(1) of the Investment and Securities Act (ISA, 2007) provides that *“No person shall make any invitation to the public to acquire or dispose of any securities of a body corporate or to deposit money with anybody corporate for a fixed period or payable at call...”*<sup>9</sup> This in turn makes any act contrary to the wordings of the ISA 2007 a criminal offense, and as such any person or corporate body found guilty of this act shall be held *“liable to a fine N100,000 in the case of an individual and N500,000 in the case of body corporate”*.<sup>10</sup> Subsequently, The Banks and other Financial Institutions Act (BOFIA, 2020) states that no persons shall carry on a specialized financial business in Nigeria other than insurance, including a collective investment scheme, unless it is a company duly registered and incorporated in Nigeria.<sup>11</sup> This legal entity must also hold a valid license granted by the Central Bank of Nigeria (CBN). Any persons found guilty of conducting financial businesses without the appropriate licence commits an offense

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<sup>9</sup> Section 67(1), Investment and Securities Act, 2007

<sup>10</sup> Section 67(2), *ibid*

<sup>11</sup>Section 57(1) Banks and Other Financial Institutions Act, 2020

and shall be held liable to a fine not less than N10,000,000.00 and an additional fine of not less than N200,000 for each day during which the offense continues. Other punishments include a jail term of not less than 5 years or both fine and prison sentence.<sup>12</sup> These provisions help regulate financial businesses, as well as help with early detection of Ponzi schemes. Thereby making it impossible for fraudsters to operate such Ponzi schemes in Nigeria. In addition, the BOFIA act section 60(1) gives banks supervisory and regulatory powers over other financial institutions and specialized banks. This along with the powers of the Nigerian Financial Intelligence Unit under Section 3 NFIU Act, 2018 to monitor financial institutions and designated non-financial institutions (DNFIs), undertake risk assessments on emerging trends and patterns on money laundering, terrorism financing, proliferation of weapons of mass destruction. Part of the NFIU's mandate is to monitor and advise the government and security agencies on potential risks and emerging trends and patterns of money laundering. Arguably, because of the nature of Ponzi schemes it is not stretch to see how money launderers and terrorist could potentially take advantage of shady investment schemes and crowdfunding to generate funds for terrorism acts, as well as integrate ill-gotten wealth into the Nigerian economy. It is likely for this reason that the current ISA 2007 is under amendments, with the Investment and Security Bill 2019 reflecting the need to monitor and regulate collective investment schemes and flag potential Ponzi schemes.

### 3.1 Recommendations

Nigeria's securities agencies are continuing their efforts to root out Ponzi schemes and other forms of scams in the country. The regulators in conjunction with CBN, Anti-Corruption Agencies and Intelligence Agencies work in partnership to put a stop to the growing trend of Ponzi schemes. However, the outcome of this product recommends:

- ❖ While issuing a temporary licence, it is pertinent to have a bold disclaimer on the licence stating the dos and don'ts towards preventing fraudsters from using such documents to conduct illegal activities.

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<sup>12</sup> Section 57 (5) (b), Ibid

- ❖ It is also important to restrict written communications with customers requesting licences to prevent the misuse of seals and logos in committing fraudulent acts. Oral communications will not only mitigate the vulnerability but also facilitate communication.
- ❖ There should be commitment and cooperation between regulators (SEC and CBN); LEAs and ACAs; and the Financial Sector in order to fully investigate Ponzi crimes and bring perpetrators to justice.
- ❖ The banks should endeavour to report suspicious cases of Ponzi scheme as soon as a pattern is established to the mitigate crime and loses.

#### 4.0 Crowd Funding

The size of the global crowd funding market is steadily on a rapid increase as a large number of start-up businesses engage in crowd funding platforms for the purpose of raising capital. The value of the global crowd funding market was reported to be at 13.9 billion U.S dollars in 2019 and expected to triple by 2026<sup>13</sup>. Start-ups in Nigeria also use crowd funding platforms such as Kickstarter, Patreon amongst others, to raise capital. Crowd funding in Nigeria remained unregulated until January 2021 when the Securities and Exchange Commission (SEC) issued the SEC Rules on Crowd funding (the "Rules") Crowd funding involves the use of an online web-based platform to raise funds from a large number of individuals or organizations in order to fund a project or business. It is important to note that the SEC Rules are only applicable to investment-based crowd funding. i.e. where funds are raised in exchange for ordinary shares, plain bonds or debenture and simple investment contracts or other instruments approved by SEC.<sup>14</sup> Such investment instruments can

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<sup>13</sup>Nigeria's Crowd funding Regulations: Impact on Fundraising <https://www.mondaq.com/nigeria/financial-services/1031656/nigeria39s-crowdfunding-regulations-impact-on-fundraising> 01.02.2021

<sup>14</sup> Ibid

only be issued through a crowd funding portal operated by an entity registered with SEC as a crowd funding intermediary.

## 4.1 Key Challenges of Crowd Funding

There are numerous issues that can arise in any investment opportunity that you pursue. With bank loans you must be sure to pay back the loan, or face bankruptcy and assets being seized to pay off your debts; with investment angels you may lose some control of your business. Crowd funding almost seems risk free when compared to these options. There is no-one vying for control of your business, no money to pay back and few personal relationships can be damaged because part of the agreements include a fulfillment reward which often satisfy the contributors. However, there are issues surrounding it.

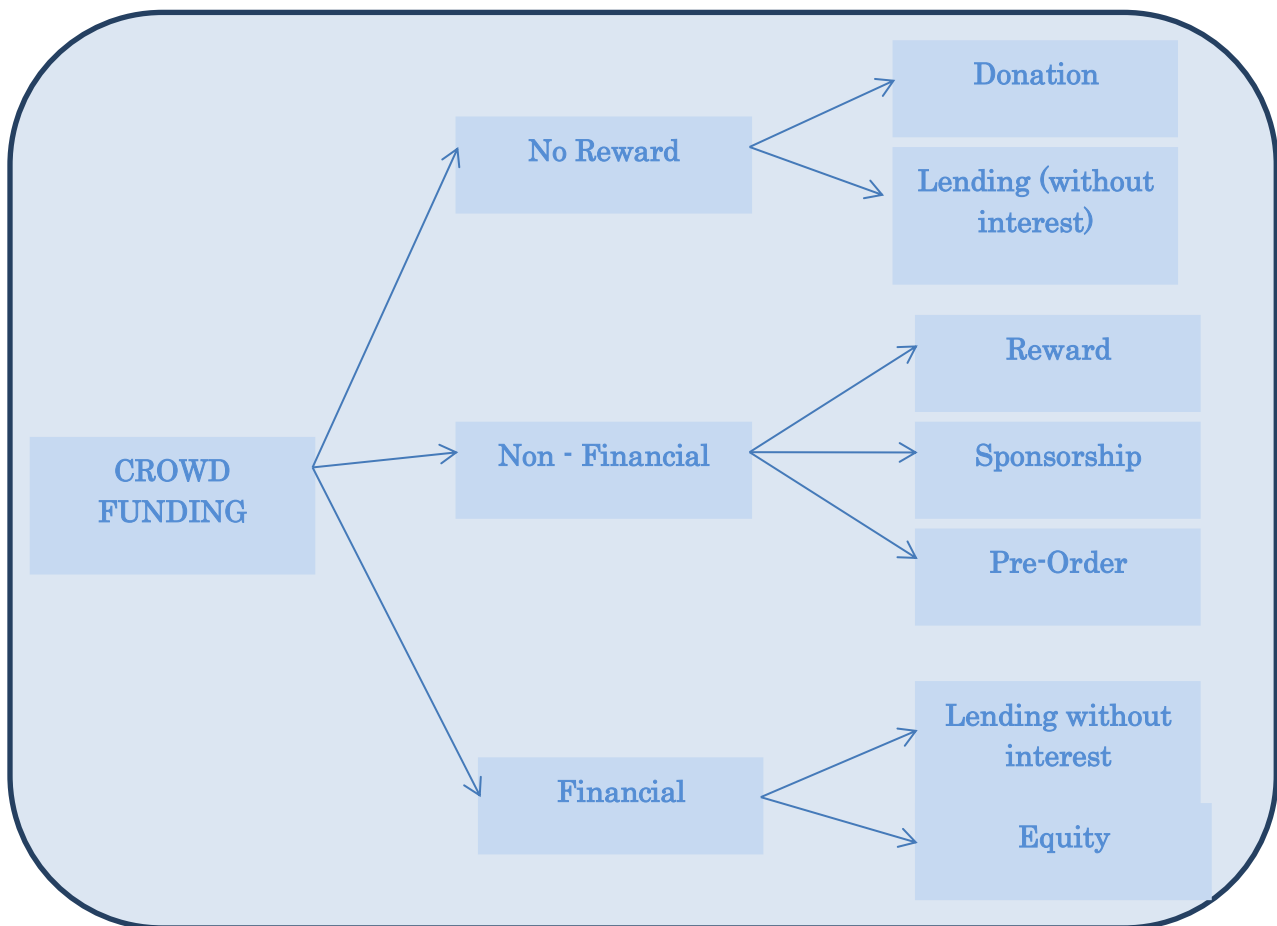
Some of these issues are:

1. To individuals:
  - Earning Trust from funders.
  - Choosing the Right Platform.
  - Lack of proper evaluation of project risk value.
  - Risk of cyber-attacks or online fraud due to online payment by investors.
2. To regulators:
  - Raising huge sum of money through equity crowd funding can lead to money laundering.
  - There is a huge amount of uncertainty when it comes to the accounting rules for funds raised through crowd funding.
  - Possibility of tax evasion.
  - Funds could be used for terrorist financing/proliferation financing.

## 4.2 Classification of Crowd Funding

Crowd funding is usually classified based on the purpose of the fund. These classifications include:

1. **Reward based Crowd funding:** This is where funds are contributed in return for a product or services.
2. **Donation Crowd funding:** Is where funds raised are regarded as mere donations with no expectation of returns/rewards to the contributors (crowd funders). This is usually seen in situations whereby funds are raised for charitable causes e.g., the gofundme.com online platform.
3. **Equity- based Crowd funding:** Here the funds are provided in return for an equity stake (shares) in the project/ company. Lending-based/debt-based Crowd funding which constitutes direct lending with the contributors as lender and the project owner as the borrower.



**Fig1: Crowd funding Classification Framework<sup>15</sup>**

<sup>15</sup>Strategic Analysis and Economic Interest Department NFIU



### 4.2.1 Case Studies on Crowd Funding

Case Study 3	Red Flags and Indicators
<p>The Account, XXXY Limited was opened on 29/07/2019 at YXX bank in Lagos. The Customer received unprecedented numbers of transfer in flows and cash deposits from several depositors on daily basics. KYC enquiries indicate that the customer is into E-Commerce, and logistics. And recently ventured into Crowd Funding as a means to expand the business. On 10/09/2020, Several inflows (Transfers and cash) Totaling to N178.6 million were received from diverse depositors. Review shows that a cumulative of N5.6 billion inflow have been received from September to date in the account of XXXY Limited. The funds were consistently dissipated through varying sums transfers to different beneficiaries. On 01/09/2020, A total of N19.6 million outflows were paid while a cumulative of N6.2 billion dissipations has been paid from the XXXY Limited within the same review period. The bulk of inflows are explained as funding from subscribers/investors for business, while the outflows are returns for the various investors. According to YXX bank review of activities in the XXXY limited suggests the customer is providing financial services without requisite regulatory license.</p>	<ul style="list-style-type: none"> <li>• XXXY Limited operates without a requisite License.</li> <li>• Huge inflows of cash from unprecedented numbers of subscriber/investors.</li> <li>• Outflows of huge amount to different beneficiaries.</li> <li>• Poor KYC enquiries on XXXY limited.</li> </ul> <p>Method of Transaction</p> <ul style="list-style-type: none"> <li>• Multiple Wire transfers</li> </ul>

## Case Study 4

## Red Flags and Indicators

The Customer commenced banking relationship with YYX Bank on June 06, 2018. The account was opened at Y branch of YYX bank in X state with account 000X and BVN 22XXX. The customer also maintains account XXXX and KKKC as personal accounts opening with the name Raymond and account number 33XX, 22XX, 44XX, 55XX and 66XX. CDD and KYC were carried out on the account at the point of account opening where it was documented that the customer is a general contractor and is into cosmetics and beauty products. The customer's account has received credits totaling N635, 392,357.50 while the total debit from inception till date is N635, 389,321.45. The major transaction mode on the customer's account is via transfers. Reviews of the transaction on the customer's account reveal that between August 1st and October 31st, 2018 the customer received 1162 credits that amounted to N547, 506,357.50. These credits were made in different tranches with different narrations. Internal investigation reveals that's these funds are from a different business form of multilevel marketing scheme and crowd funding. Further investigation reveals that the funds received were transferred to account 00SS and from 00SS account the funds were transferred to other various beneficiaries with the remark weekly trade.

- Sudden change in customer transaction pattern and structure.
- The Customer is involved in money laundering
- Customer is into Ponzi schemes and Crowd funding.
- Huge inflow of funds within a limited period
- Outflows of huge amount to different beneficiaries without a defined relationship.
- Poor KYC and CDD enquiries.
- Operation without a requisite License.

### Method of Transaction

- Multiple wire transfers

### 4.3 Recommendation

The Nigeria Securities and Exchange Commission rule to regulate Crowd funding in Nigeria should most importantly aim to protect public interest and the economy of the country which can be achieved through the following:

1. Placing limits on the amounts that can be raised through the Crowd funding platform e.g. (N100 Million for Medium Enterprises; N70 Million for Small Enterprises, N50 Million for Micro Enterprises)
2. All transactions under the crowdfunding regulation to take place online through a SEC-registered intermediary, either a broker-dealer or a funding portal. Platform/portal should always have bio data information for donation e.g., NIN number or international passport number
3. Fundraising companies should be mandated to prepare documents such as capital structure, directors and officers, business plan and risks, intended fund usage, and financial statements to be filed with SEC and also to its investors.
4. All Crowd funders should be registered with the Commission and become a member of a national securities association.
5. In terms of eligibility, the Commission should seek to restrict Crowdfunding platforms to Nigerian companies or place more stringent regulations on foreign companies.