

NASAA Sees Sharp Spike in Crowdfunding Presence on the Internet

NASAA Task Force Monitoring Internet for Increased Signs of Fraud

WASHINGTON (December 5, 2012) – Crowdfunding’s presence on the Internet has risen sharply in recent months in anticipation of rules to allow small businesses and entrepreneurs to raise investments online, a task force of state and provincial securities regulators said today.

Crowdfunding is an online money-raising strategy that began as a way for the public to donate small amounts of money, often through social networking websites, to help finance projects or causes. Through the Jumpstart Our Business Startups (JOBS) Act, small businesses and entrepreneurs will be able to tap into the “crowd” in search of investments to finance their business ventures once the Securities and Exchange Commission adopts rules to do so. The rules are expected sometime next year.

“Investors soon can expect to be inundated with crowdfunding pitches, legitimate or otherwise,” said Heath Abshire, NASAA President and Arkansas Securities Commissioner.

An analysis of Internet domain names by state and Canadian securities regulators found nearly 8,800 domains with “crowdfunding” in their name as of November 30, 2012, up from less than 900 at the beginning of the year. Of these websites, about 2,000 contained content, more than 3,700 had no content and more than 3,000 appeared to be “parked” and serving as placeholders to reserve a domain name for later use or sale. Of the domains with “crowdfunding” in their name, about 6,800 have appeared since April, 2012 when the JOBS Act was signed into law.

“Many of these sites appear to have been formed by large credible organizations while others appear to be created by individuals that may be operating out of their basements,” said Robert Moilanen, Minnesota Securities Director and chair of the North American Securities Administrators Association’s Internet Fraud Investigations Project Group. “The pure volume suggests that the wave is about to overtake the dam.”

Anticipating an increase in online fraud stemming in part from passage of the JOBS Act, NASAA created a task force on Internet fraud investigations shortly after the enactment of the JOBS Act to monitor crowdfunding and other Internet offerings. The group is currently coordinating multi-jurisdictional efforts to scan various online offering platforms for fraud, and, where authorized, will coordinate investigations into online or crowd-funded capital formation fraud.

In addition, NASAA members are being trained in the use of an innovative online data mining tool developed by the staff of the Enforcement Division of the New Brunswick Securities Commission to help identify potentially fraudulent websites. The task force also is working with NASAA's Investor Education Section to develop investor and industry awareness programs regarding crowdfunding.

"NASAA is promoting a proactive approach to identify problematic websites, rapidly share information about those websites with appropriate state and provincial securities regulators and engage in a prompt, meaningful and coordinated education and enforcement response," Abshire said. "Cooperation among NASAA members is a critical component to addressing unregistered crowdfunding sites or registered crowdfunding sites that are engaged in illegal activities nationwide."

NASAA is the oldest international organization devoted to investor protection. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada and Mexico.

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