



18 May 2020

SEC STOPS CROWD1'S ILLEGAL INVESTMENT SCHEME

The Securities and Exchange Commission (SEC) has ordered CROWD1 Asia Pacific, Inc. to immediately stop soliciting and accepting investments from the public under a scheme disguised as a digital marketing business.

In an [order issued May 12](#), the Commission directed CROWD1 to cease and desist, under pain of contempt, from engaging in activities of selling and/or offering for sale securities in the form of investment contracts or other similar schemes without prior registration and permit to sell.

The SEC also ordered CROWD1 to cease from promoting its investment scheme in social media and other online platforms.

Furthermore, the Commission prohibited CROWD1 from transacting any business involving funds in its depository banks, and from transferring, disposing, or conveying in any manner all related assets for the benefit of the investors.

The cease and desist order covers the corporation's operators, partners, directors, officers, salespersons, agents, representatives, promoters, and all persons, conduit entities and subsidiaries claiming and acting for and on its behalf.

The SEC issued the cease and desist order after finding that CROWD1 has operated "a fraudulent investment scheme consisting of the sale and/or offer of inexistent securities in the form of investment contracts to the public."

CROWD1 solicits and accepts investments from the public by offering what it describes as educational packages for a minimum of P6,000 and as much as P240,000.

To entice the public to invest, CROWD1 promises member-investors five different bonuses: streamline bonus, binary pairing bonus, fear of loss bonus, matching bonus, and residual bonus from games and gambling apps.

CROWD1 likewise touts a pairing incentive payable in euros to encourage member-investors to recruit new members.



Representing itself as a digital marketing business, CROWD1 claims it generates income from online games and facilitates the generation by its members of residual income from its affiliate gaming companies such as AFFIGLO and MIGGSTER.

The SEC, however, ruled that CROWD1's scheme involved the sale and/or offer of securities in the form of investment contracts and, thus, required a secondary license under Republic Act No. 8799, or The Securities Regulation Code (SRC).

Rule 26.3.5 of the 2015 Implementing Rules and Regulations (IRR) of the SRC defines an investment contract as "a contract, transaction or scheme whereby a person invests his money in a common enterprise and is led to expect profits primarily through the efforts of others."

An investment contract is presumed to exist when a person seeks to use the money or property of other persons on the promise of profits. Also, a common enterprise is deemed created when two or more investors pool their resources even if the promoter receives nothing more than a broker's commission.

In this light, the SEC held that CROWD1 engaged in the sale and/or offer for sale of securities in the form of investment contracts.

The Commission also ruled that the act of CROWD1 of publishing and making presentations on its investment/ business scheme through its website, Facebook, YouTube and on-ground events, and inviting investors constituted a public offering as defined under Rule 3.1.17 of the 2015 IRR of the SRC.

Section 8 of the SRC provides that securities shall not be sold or offered for sale or distribution within the Philippines, without a registration statement duly filed with and approved by the SEC.

CROWD1 neither secured a secondary license to operate as a broker/dealer, registered as issuer of mutual funds, exchange-traded funds or proprietary/nonproprietary shares, nor registered any securities pursuant to the SRC.

CROWD1 only registered as a corporation for the primary purpose of engaging in business process outsourcing services.

The SEC, however, emphasized that the certificate of incorporation granted to CROWD1 explicitly prohibited the corporation from soliciting, accepting or taking investments or placements from the public as well as from issuing investment contracts.



The Commission initially advised the public to exercise caution in dealing with individuals and groups representing CROWD1 through an advisory dated April 28, after gathering information about the corporation's unauthorized investment-solicitation activities.

Acting on numerous complaints, reports and inquiries, the SEC Enforcement and Investor Protection Department (EIPD) conducted an investigation, which included surveillance and field operations, for possible violations of the SRC and its IRR.

The EIPD was then able to establish by substantial evidence that CROWD1 was selling and/or offering securities to the public in the form of investment contracts without the required secondary license from the Commission.

Based on the findings and evidence gathered, the SEC proceeded with the issuance of a cease and desist order against CROWD1.

"[I]t is clear that CROWD1 is not authorized to sell or offer its educational packages to the public because they are securities in the form of investment contracts, and CROWD1 does not have the requisite license from this Commission," the order read.

"This undoubtedly warrants the issuance of a cease and desist order because the act of CROWD1 in selling/ offering unregistered securities operates as a fraud to the public which, if unrestrained, will likely cause grave or irreparable injury or prejudice to the investing public."

The SEC earlier issued similar cease and desist orders against [Lion City Finance Group, Inc.](#) and [Payasian Pte. Ltd. Corporation](#) for selling and/or offering to the public securities in the form of investments contract without the necessary licenses.

Lion City obtained funds from the public allegedly to finance its various business transactions and operations. It promised a pure passive income of at least 10% a month and issued postdated checks to investors covering the amount of the guaranteed return on investment.

Payasian, meanwhile, enticed investors to buy Paya Coins and hold them for six months in order to receive 30% additional Paya Rewards. The group also offered referral rewards.

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