



# Governance of Illegal Fundraising Crimes in the Era of Blockchain: A Focus on Characteristics of New Illicit Fundraising

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**Abstract.** With the rapid development of blockchain technology, new forms of illegal fundraising crimes are exhibiting distinct characteristics from traditional illicit fundraising practices. This paper takes the typical features of new illicit fundraising in the era of blockchain as a starting point and delves into the key differences between new illicit fundraising crimes and traditional ones. It uncovers their distinctive characteristics and provides recommendations for enhancing the legal framework of online financial regulation in China.

**Keywords:** illegal fundraising; blockchain; financial crime; regulatory mechanisms

## 1 Introduction

In recent years, the rapid development of blockchain technology has been widely applied in various fields such as currency payments and settlements, asset management and securities trading, and credit assessment. It has brought infinite possibilities to the financial industry. However, it has also posed potential risks. Traditional illegal fundraising crimes have evolved into more covert forms in the era of blockchain, posing significant risks to the rights of investors and the stability of financial markets.

In the past few years, China has witnessed several cases of illegal fundraising related to blockchain. Criminals take advantage of the decentralized and anonymous nature of blockchain technology to engage in false advertising, illegal fundraising, and investment fraud [1]. These activities not only harm the rights of investors but also disrupt the order and stability of financial markets.

Therefore, strengthening the governance of new forms of illegal fundraising crimes has become an urgent task. In-depth research on the characteristics and governance of new illicit fundraising crimes in the era of blockchain is beneficial for protecting the legitimate rights of investors, maintaining the order of financial markets, promoting the healthy development of blockchain technology, and advancing international cooperation. It has significant research significance and practical application value.

This study aims to take the typical features of new illicit fundraising in the era of blockchain as a starting point. By utilizing theoretical analysis and case studies, it will

delve into the key differences between blockchain-related illegal fundraising crimes and traditional forms of illegal fundraising. The study aims to uncover their distinctive characteristics and provide recommendations for enhancing the regulatory framework of online financial supervision in China.

## 2 Literature Review

### 2.1 Research Status

In recent years, with the rapid development of blockchain technology, the issue of new illicit fundraising has attracted widespread attention. Currently, research on the governance of illegal fundraising crimes in China has achieved certain results.

Firstly, researchers have explored the concept of illegal fundraising crimes. For example, Keda, in the article "Regulation of Illegal Fundraising Crimes in the Context of Blockchain Digital Currency: A Case Study of the Crime of Illegal Absorption of Public Deposits," elucidated the origin and legal regulation of illegal fundraising [2]. Zong Shuaibin, in "Investigation of Illegal Fundraising Crimes in the Context of Blockchain," explained the concept of illegal fundraising behavior and outlined some of its characteristics. The article briefly discussed types of illegal fundraising crimes in the context of blockchain [3]. Through empirical research, these scholars have revealed the origins, concepts, types, and harms of illegal fundraising crimes, providing a foundation for further research on governance measures.

Furthermore, some scholars have focused on the establishment of the legal framework for governing illegal fundraising crimes. For instance, Wang Zhixiang and Rong Hao, in the article "Recognition of Illegal Fundraising Crimes in the Field of Blockchain," defined the criteria for distinguishing between illegal and non-illegal fundraising behaviors in the blockchain field. They provided explanations regarding the determination of the purpose of illegal appropriation and the identification of fraudulent activities [4]. Keda proposed the viewpoint of adding "passive investment" as a new criterion for identifying illegal fundraising behaviors. Hu Hui, in the article "Criminal Regulation of Illegal Fundraising Issues in the Perspective of Blockchain ICO," expounded on the current state of criminal regulation of illegal fundraising in China, the problems faced by China's criminal law regulation in the context of illegal fundraising through ICOs, and suggestions for improvement [5].

However, regarding the current research status in China, there are some noteworthy issues. For example, there is inconsistency in the definition of illegal fundraising crimes in the context of blockchain. Some scholars simply understand it as illegal fundraising activities conducted using blockchain technology, overlooking the essential characteristics of illegal fundraising behavior. Additionally, some researchers focus on blockchain technology as the primary means of illegal fundraising crimes but fail to compare it with traditional illegal fundraising activities, leading to a lack of in-depth analysis.

Moreover, research on the characteristics of new illicit fundraising crimes in the context of blockchain in China is still relatively limited. Current studies mainly focus on the criminal methods employed and the analysis of influencing factors, while research on the typical features of illegal fundraising crimes is lacking. For example,

Zong Shuaibin's work narrows down the characteristics of illegal fundraising crimes in the blockchain context solely to the means of criminal activities. In terms of the legal construction of governance for blockchain-related illegal fundraising crimes, domestic research tends to be somewhat general and fails to address specific issues such as the lack of clear legal standards for blockchain-related illegal fundraising.

This study aims to analyze the typical features of new illicit fundraising crimes in the era of blockchain through theoretical analysis and case studies. It seeks to delve deeper into the differences between these crimes and traditional forms of illegal fundraising, provide a more accurate definition, and explore measures to improve China's legal framework for online financial supervision based on the distinctive characteristics of blockchain-related illegal fundraising crimes. The goal is to enhance the level of regulation in the field of online finance and effectively govern new types of illegal fundraising crimes.

## **2.2 Research Methodology**

To explore the differences and characteristics between new illicit fundraising in the context of blockchain and traditional illegal fundraising, this study proposes to use a case study approach. By comparing representative cases of illegal fundraising, a deep understanding of the criminal activities involved in illegal fundraising can be gained, and their characteristics can be summarized.

When analyzing the cases, this study will first discuss traditional illegal fundraising. Traditional illegal fundraising typically involves features such as false advertising, high return promises, and illegal organizational forms. The study will summarize typical cases of traditional illegal fundraising and analyze their characteristics.

Subsequently, the study will shift focus to case analyses of new illicit fundraising in the era of blockchain. New illicit fundraising often involves the application of emerging technologies and platforms, such as cryptocurrencies, blockchain platforms, and online social media. The study will explore the typical characteristics of new illicit fundraising through representative cases and compare them with the main differences from traditional illegal fundraising.

Overall, the case study method will provide valuable insights into the distinctive features of new illicit fundraising in the blockchain era and facilitate a comprehensive analysis of its differences from traditional illegal fundraising.

## **3 Typical Characteristics of Blockchain Illegal Fundraising and Case Analysis**

### **3.1 Typical Case of Illegal Fundraising**

One of the classic examples of traditional illegal fundraising is the Ponzi scheme in the United States. Ponzi claimed to achieve high returns through arbitrage trading in the international stamp market, attracting a large number of investors with enticing return rates. However, in reality, he used the funds from new investors to pay the profits of

old investors. Due to investors' fascination with high returns, they continued to invest with Ponzi and recommended others to participate. This pyramid-like operating model allowed the scheme to expand rapidly and accumulate a substantial amount of fraudulent funds.

From this, it can be observed that traditional illegal fundraising crimes often lure investors with high returns and low risks, attract investors through a pyramid scheme, and operate with an opaque flow of funds controlled and allocated by central figures. They often use false investment projects to conceal the destination of funds. Furthermore, these investment companies often lack the necessary qualifications, regulation, and compliance measures, making it difficult to protect the rights and interests of investors.

Entering the era of blockchain, new forms of illegal fundraising crimes have exhibited distinct characteristics compared to traditional illegal fundraising. In recent years, China has witnessed several cases of new illegal fundraising, among which the PuYin Coin case of PuYin Company in Shenzhen in 2017 had a significant impact and represents a typical example.

In 2017, Shenzhen PuYin Blockchain Group Co., Ltd. publicly claimed through internet platforms, social media, and other channels that they would issue a virtual currency called "PuYin Coin" with a collateral of billions in Tibetan tea. Investors could buy and sell PuYin Coins on a virtual trading platform to earn price differentials. However, investigations revealed that the price fluctuations of PuYin Coins were not influenced by the market but rather manipulated and controlled by the company itself. To attract more investors, the company artificially increased the price and even promised to split the PuYin Coins held by investors, multiplying their holdings by 100 and enhancing their returns. Once a large number of investors entered the market, the company maliciously manipulated the price trend of PuYin Coins and continuously cashed out, rendering the PuYin Coins held by investors worthless and resulting in substantial losses.

Through this case, we can identify several unique characteristics of new illegal fundraising compared to traditional forms, primarily including decentralization and transactions involving encrypted currencies. Additionally, in many other cases, new illegal fundraising often demonstrates strong anonymity, cross-border nature, and promotion through social media platforms. These characteristics not only increase the concealment and complexity of illegal fundraising activities but also pose challenges in terms of detection, prevention, and enforcement efforts.

## **3.2 Typical Characteristics of New Illegal Fundraising**

### **3.2.1 Decentralization.**

New forms of illegal fundraising, empowered by blockchain technology, exhibit the typical characteristic of decentralization.

Traditional financial systems rely on central authorities or third-party regulatory bodies to control and supervise transactions. In contrast, in a blockchain network, transactions are collectively verified and recorded by nodes in the network, without the need for central authorities or third-party institutions to control and regulate transactions.

This allows criminals engaged in illegal fundraising to operate within regulatory blind spots and carry out their criminal activities through the creation of fraudulent investment projects.

For example, in the infamous OneCoin scam, due to the decentralized nature of the blockchain network, the founder of OneCoin could easily manipulate the system, create false transactions and market trends, and sustain the entire scam by recruiting downstream investors. Due to the lack of trusted third-party regulatory bodies and authoritative certification institutions, investors found it challenging to identify the scheme as an illegal fundraising scam.

### **3.2.2 Anonymity.**

Anonymity is an important characteristic of new illegal fundraising. Traditional illegal fundraising often involves physical identities and transaction records, making it easier to trace and expose. However, by conducting transactions using anonymous accounts on the blockchain network, illegal fundraisers can effectively conceal their identities and transaction records, thereby engaging in illegal fundraising activities more covertly.

The anonymity feature of blockchain allows illegal fundraisers to mask their true identities, and transaction records become difficult to trace. In the traditional financial system, each participant needs to undergo identity verification, and every transaction has corresponding records that regulatory bodies and law enforcement agencies can trace and verify the identity information of individuals involved. In contrast, transactions on the blockchain network do not require identity authentication; only an anonymous account is needed to carry out transactions. The true identities of participants are concealed, providing illegal fundraisers with an opportunity to engage in fraudulent activities while evading supervision and enforcement. Furthermore, illegal fundraising criminals can further obscure the flow of funds by using multiple accounts and transfer methods, increasing the difficulty of enforcement agencies in combating such activities.

### **3.2.3 Cross-Border Nature.**

New forms of illegal fundraising often exhibit cross-border characteristics, which are facilitated by the global and borderless nature of blockchain technology.

Traditional illegal fundraising is often limited by geographical and national boundaries, whereas blockchain technology breaks down these limitations.

By leveraging the globalized features of blockchain networks, illegal fundraisers can engage in cross-border transfer and conversion of funds, swiftly removing or concealing the source of funds. This makes detection and recovery more challenging, increasing the difficulties faced by relevant regulatory authorities. Moreover, illegal fundraisers can quickly establish transnational illegal fundraising platforms by capitalizing on the convenience of cross-border transactions, attracting participants from various countries and expanding illegal fundraising activities.

Furthermore, due to differences in understanding and legal regulations of blockchain technology across countries, it is difficult to establish unified regulatory standards and cooperation mechanisms. Criminals can exploit legal discrepancies between different

countries and coordination issues among regulatory systems to conduct cross-border fund transfers and engage in tax evasion, evading supervision and reducing the risks of being held accountable. This not only increases the difficulty of combating illegal fundraising but also poses significant risks to the stability of the global financial system.

### **3.2.4 Cryptocurrency Transactions.**

In the era of blockchain, cryptocurrency transactions are a common means of new illegal fundraising activities. Cryptocurrencies are digital currencies created and managed based on cryptographic techniques, with Bitcoin and Ethereum being the most well-known and widely used cryptocurrencies [6].

Cryptocurrency transactions offer advantages over traditional financial systems in terms of transaction speed and borderless nature, allowing for quick global completion without being subject to national boundaries. Therefore, they have become an ideal choice for illegal fundraising criminal activities.

Moreover, cryptocurrency transactions provide a high level of anonymity and irreversibility, making the transfer and circulation of illegal funds more secretive and difficult to trace. Traditional financial regulatory institutions often struggle to effectively identify the accounts involved in cryptocurrency transactions and trace the flow of funds [7]. Criminals can issue fraudulent Initial Coin Offerings to deceive investors into purchasing fake cryptocurrencies, illegally acquiring substantial wealth. The lack of third-party audits and regulation during cryptocurrency transactions further increases the difficulty of combating illegal fundraising.

In addition to the aforementioned characteristics, new forms of illegal fundraising often involve the use of smart contracts and promotion through social media. Criminals utilize smart contracts to write and execute automated contracts, facilitating illegal fundraising activities and increasing operational efficiency. Furthermore, they take advantage of the widespread dissemination and interactivity of social media platforms to promote and advertise their activities, rapidly expanding the influence of their illegal fundraising endeavors. They employ deceptive evidence and forged data, making claims of high returns and low risks associated with their projects, thereby establishing false reputations and images to attract more investors to participate.

## **4 Conclusion and Outlook**

In response to illegal fundraising crimes, China has already established a series of laws and regulations to regulate the field of online finance, including the Electronic Commerce Law of the People's Republic of China and the Cybersecurity Law of the People's Republic of China. However, the existing legal and regulatory framework for online financial supervision still has significant shortcomings when confronted with new forms of illegal fundraising crimes in the blockchain era. These shortcomings include insufficient clarity in defining legal standards, lack of clear determination of regulatory authorities and responsibilities, difficulties in enforcement, and inadequate penalties.

Currently, the definitions and punishment standards for illegal fundraising activities related to blockchain, as well as the criteria for determining the subjects of blockchain-

related illegal fundraising crimes, are ambiguous and lack clear delineation in the legal provisions of China. Moreover, the financial regulatory system in China is relatively decentralized, with numerous regulatory authorities involved in the oversight of blockchain-related illegal fundraising, leading to information silos and unclear responsibilities among different departments, resulting in low efficiency in regulatory coordination [8]. This can create regulatory vacuums due to unclear delineation of powers and responsibilities, making it difficult to timely detect and combat illegal fundraising crimes. Additionally, the existing regulatory measures in China lack the capacity to effectively address blockchain-related illegal fundraising. Furthermore, the current laws have relatively low penalties for crimes such as illegal acceptance of public deposits and fundraising fraud, making it challenging to effectively curb the proliferation of illegal fundraising activities.

To enhance China's financial regulatory framework and better govern new forms of illegal fundraising crimes, we can first explore the use of multi-factor authentication combined with technological means such as biometric recognition to establish a robust blockchain identity authentication mechanism and identity information management system [9]. It is also important to reasonably restrict the use of anonymous accounts and verify the true identities of participants.

Secondly, we can leverage the resources and technologies of regulatory authorities, financial institutions, and blockchain technology companies. By introducing advanced information technologies such as artificial intelligence, we can establish blockchain transaction information sharing and monitoring platforms. This will strengthen real-time monitoring and scrutiny of blockchain transaction records [10], ensuring the compliance and legality of transaction activities.

In the process of improving China's financial regulatory framework, it is crucial to establish clear legal standards. We should define the specific connotations and manifestations of illegal fundraising activities in the blockchain context. This can be achieved by refining classification and punishment standards based on the nature, circumstances, and impact of the crimes. It is important to consider the behavioral characteristics of offenders [11], such as malicious deception. Furthermore, it is necessary to clearly define the scope of subjects involved in blockchain-related illegal fundraising crimes. Law knowledge dissemination and public awareness campaigns should be strengthened to enhance the general understanding of the risks associated with new forms of illegal fundraising.

Moreover, it is essential to further enhance regulatory mechanisms, regulatory capabilities, and governance effectiveness. Specifically, we need to clarify the division of responsibilities and authorities among regulatory agencies in combating blockchain-related illegal fundraising crimes. This can be achieved through the establishment of collaborative regulatory platforms, regular meetings, and information sharing, as well as the development of data sharing and cooperation mechanisms. Strengthening information sharing and international cooperation with financial institutions and law enforcement agencies is crucial in forming a united front to combat illegal fundraising crimes [12].

Lastly, it is crucial to enhance criminal penalties and accountability measures when dealing with illegal fundraising crimes in the blockchain era. This includes establishing

specialized investigation and evidence collection teams to enhance the gathering of evidence and conduct thorough investigations. Furthermore, it is important to increase the severity of penalties for crimes such as illegal acceptance of public deposits and fundraising fraud, particularly when these crimes are committed with blockchain technology. Additionally, the criminal punishment and prosecution of primary individuals involved in such illegal fundraising activities should be strengthened.

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