BUSINESS INSIDER

I'm the former compliance head at a big Wall Street bank — here are 5 key lessons the financial world can learn from the doomed Fyre Festival

Billy McFarland, founder of the Fyre Festival. Hulu

- **There are many lessons to be learned from the failed Fyre Festival.**
- **Eoin O'Shea, the former global chief compliance officer at Credit Suisse, says there are big similarities between the doomed luxury musical festival and money-laundering schemes.**

The Fyre Festival debacle is well documented. A horrendous trail of trust destruction that poisoned the lives it touched. Investors who lost millions. Dozens of social media, project management and event support professionals who acted in good faith only to have their reputations trampled on. Local labor and suppliers who had to swallow enormous losses, causing life-changing financial damage in some cases. And of course, the scammed ticket holders.

There are many broader lessons to be learned from this startling case study in gullibility, greed and manipulation. There also several key lessons as well for the financial world - by casting a criminal lens over some of the reported activities and behaviours, we see some cautionary compliance themes.

Let's look at some of the hallmark red flags.

1. Suspicious or incomplete information

This is financial crime 101. Full transparency kills most scams, as they thrive on the oxygen of deceit. From the delusional investment prospectus, to the Ponzi scheme that fueled the day-to-day payroll of the structure, non-disclosure was key. While it is always good to take assurance from what we know, it is equally important to be honest about what we don't know.

2. Vague or opaque statements

Even when information was provided to prospective Fyre Festival investors - for example in the investor prospectus - we see hyperbole, nonsensical verbiage, and meandering non-sequiturs. The warning here is simple. When it sounds like nonsense, it probably is.

3. Offshore location (business venture and/or money flows)

While not all scams involve off-shore conduits, many do. And here we have two red flags intricately furled together, the event destination *and* the money flows surrounding the scheme.

4. Magical thinking - lack of track record for the current activity

There is an expression about faith that goes something like this: for those who believe, no proof is necessary, for those who don't, no proof is enough. The promoter was clearly grossly unqualified for the venture being undertaken, and utterly lost in his own world of magical thinking. But he was never alone. Too many people that were dragged into the scheme were also prepared to suspend disbelief. Why?

There is of course investor FOMO — who wants to miss out on the next big thing? We are reminded that it is still cool to be skeptical, especially when the herd is stampeding.

There was the promoter's powerful charisma. Charisma is a very powerful real-world force, however you don't see much about it in compliance manuals. But the fact is, most financial crime schemes of any magnitude will have a charismatic figure at their core.

And charisma always needs to be questioned. There is an old Russian proverb, "Doveryai, no proveryai" that Ronald Reagan co-opted it in the 1980s: "Trust, but verify."

5. Unregulated business activity - aggressive use of unregulated promotion channels (social media)

It is hard for financial crime to flourish using regulated channels. A large scale but still exclusive offshore high-end event satisfied the need to create something big enough to allow serious amounts of money to be moved around, while staying under the regulated radar that governs most legitimate investment schemes. It's all easy to say in hindsight, but the fact that the scheme was not regulated was easy to see.

This is a lesson in and of itself. If an investment scheme is not regulated, the *caveat emptor* fog horns should sound loudly, no matter how much opaque mist the investment promoter creates.

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