

The background features a complex network of overlapping circles in white and light gray, some solid and some dashed. Small dark gray dots are placed at various points where the circles intersect. Several white plus signs are scattered across the composition. In the top-left corner, the text 'D4' is enclosed in a red circle.

D4

Guide to EDD

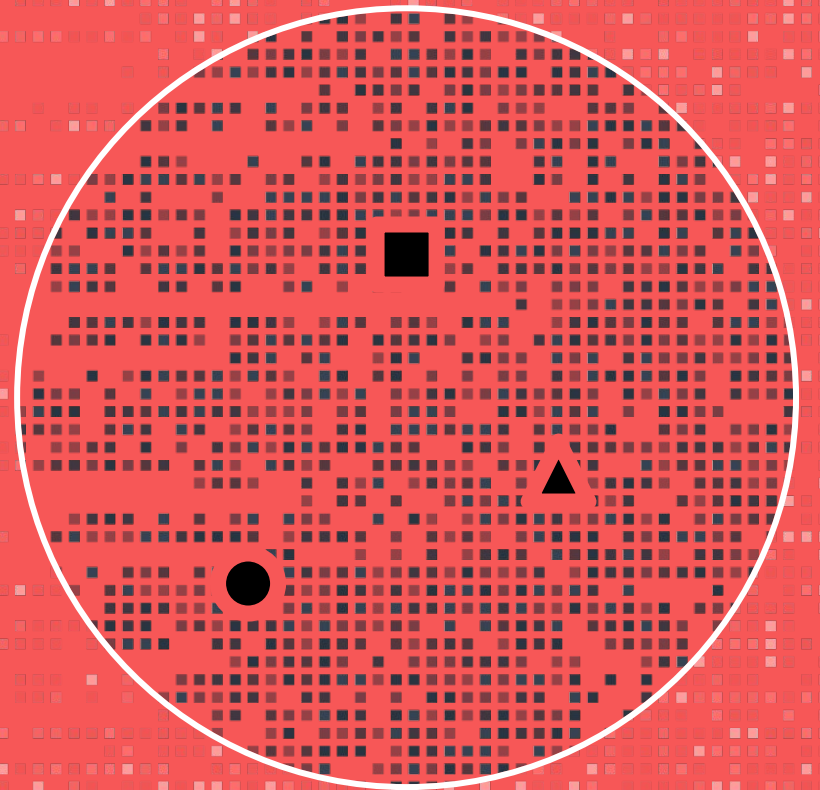
Enhanced due diligence
for investment firms

What is EDD?

Enhanced Due Diligence (EDD) is an extra level of scrutiny of individuals and companies to further satisfy operational and regulatory requirements and to help minimize risk.

In the investment industry, there are typically two targets for EDD:

- **Individuals or entities providing capital** – the investor
- **Intended recipients of capital** – the investee



Standard checks

Investment firms are required by law to conduct certain checks on investors and investees. These include:

Investors

- Proof of identity, tax and domicile details
- Politically-Exposed Person (PEP) checks
- Credit checks for sanctions, CAIS, CCJs etc.

Investees

- Company identity, location etc.
- Proof of identities for Persons of Significant Control (PSC)
- PEP checks for PSC



Standard checks don't tell you much about the actual people you're receiving money from, or giving money to.

What EDD adds

Standard checks don't tell you that an investor or investee might be compromised in some way.

Identity and credit profiles may be clear, but less obvious behavioural and environmental evidence might give investment firms serious cause for concern.

EDD enables you to build a much richer profile of investors, and the individuals controlling investee companies. These profiles can help you make more informed decisions, identify potential issues, minimise risk and even spot future opportunities.

If standard due diligence is ticking boxes, then EDD is REALLY getting to know someone.

The risks to your business

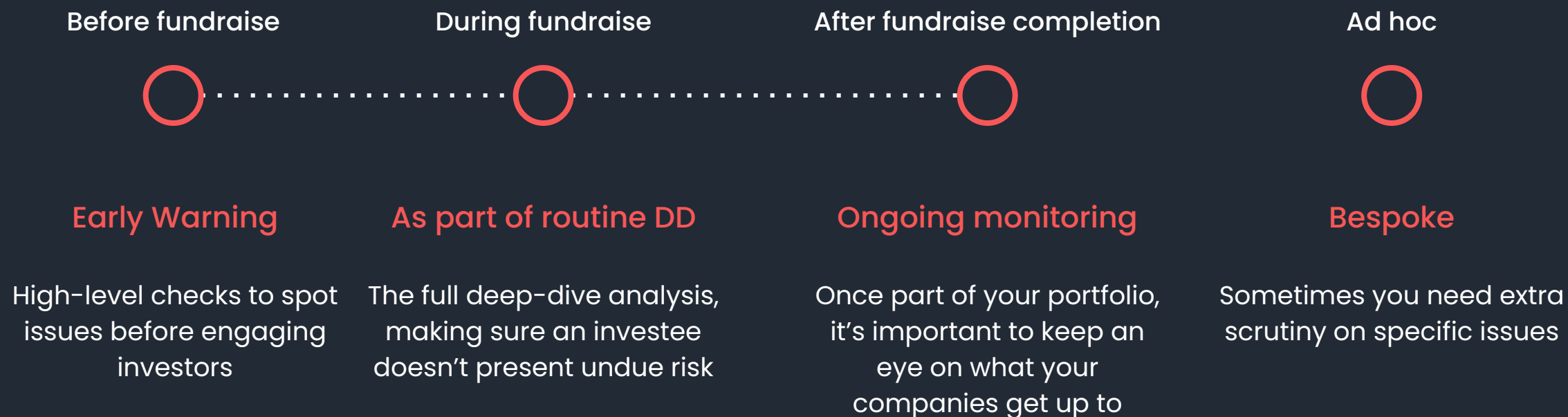
Accepting capital from compromised external sources (upstream) or providing capital to compromised fundraising companies (downstream) exposes your firm to various types of risk.

	Legal	Financial	Reputational
Upstream Risk generated by 'bad' investors	<ul style="list-style-type: none">• Regulatory sanctions• Action by investees let down during fundraise	<ul style="list-style-type: none">• Withdrawal of funds at late stage• Lost fees• Possible compensation to investees for failed fundraises	<ul style="list-style-type: none">• Wider industry perception from compromised investors
Downstream Risk generated by 'bad' investees	<ul style="list-style-type: none">• Action by investors let down by failed companies	<ul style="list-style-type: none">• Poor returns from compromised companies• Lost fees• Possible compensation to investors for failed companies	<ul style="list-style-type: none">• Media coverage of poor investee behaviour• Wider portfolio reputational damage

How EDD can help



EDD during the investment lifecycle





D4

example scenario pre-investment

A company co-founder is found to have been involved in illegal activities while at previous businesses.

Though not convicted and free of a criminal record (thus invisible to a criminal check), local news coverage is discovered, and corroborated, during an early warning scan that identifies the individual as having been involved in multiple similar activities.

A planned investment into the founder's company is subsequently cancelled.

A person wearing a blue button-down shirt is seated at a desk, holding a tablet computer. The desk is cluttered with papers, a notebook, and a pen. The background is blurred, showing an office environment. In the top left corner, the text 'D4' is enclosed in a red circle. At the bottom of the image, there is a horizontal dotted line with three circles: the first and third are white, and the second is red.

D4

example scenario during investment

A Person of Significant Control at a scaling business is profiled to assess their suitability for major investment from a discreet family office.

Full scan analysis, carried out alongside routine due diligence, scans thousands of global sources to obtain a balanced view of the individual's passive and active media profile.

Due to the discovery of unsavoury posts on fringe websites, extreme views and association with controversial figures, the investment is quietly withdrawn.

A woman with long brown hair, wearing a pink striped shirt, is sitting at a desk in a meeting. She is pointing at a laptop screen with a black pen. The screen displays a line graph. In the foreground, the back of a person's head and shoulders, wearing a white shirt, is visible. The background is a blurred office setting with windows and other people.

D4

example scenario

post-investment

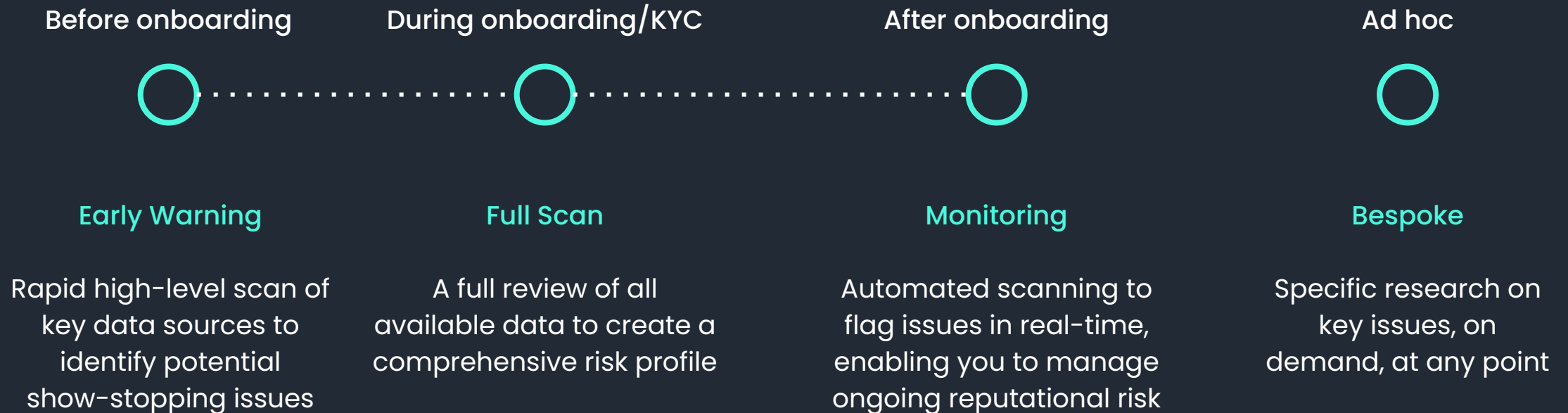
An early-stage business successfully raises £5m funding from a small roster of angel investors and a venture capital firm. Routine due diligence raises nothing of note.

During post-investment monitoring, two directors are found to have made potentially libellous remarks about key customers on social media.

The board is encouraged to take action to minimise the risk of negative publicity and possible legal action.



EDD during investor onboarding



How EDD is carried out

EDD is usually carried out in a three stage process that combines raw computational power with human experience and insight.

Data mining using AI

The first stage is to confirm the identity of the individual (or company) that is being investigated. Once confirmed, an Open Source Intelligence (OSINT) platform is used to mine millions of public data points available online. This uses identity markers, like email and social media handles, to crawl the world wide web and find content related to the target. The data is compiled using AI into a manageable store of raw data.

Human analysis

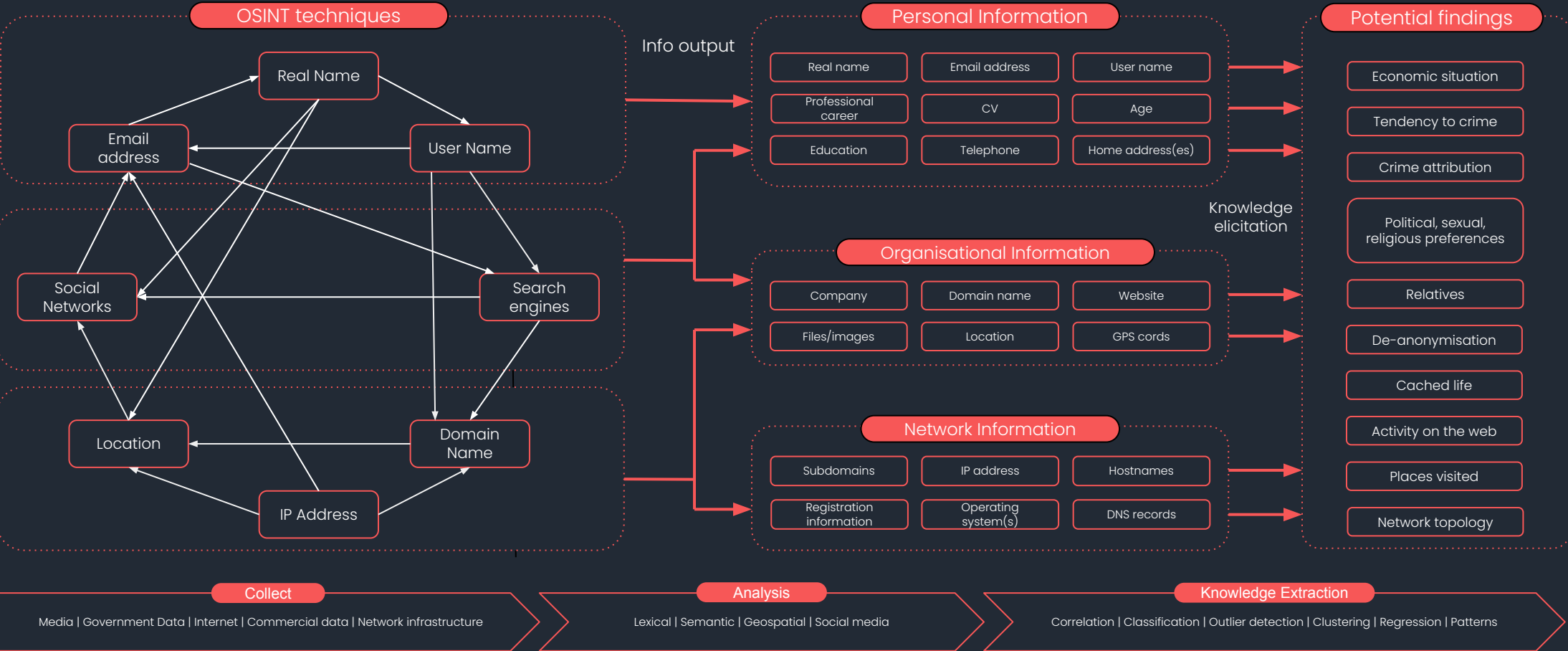
The next stage is for experienced analysts to examine the data produced in stage one and identify what is important and discard what isn't. In addition, the analysts will seek to strengthen and support available data through manual research. AI is not great at interpreting nuance, and sometimes it can require human intuition to retrieve valuable information.

Risk report

Once the data collection and analysis is completed, then a report can be compiled. Typically the report will summarise the key issues uncovered, the likely risks that these issues pose, and any areas that may benefit from further investigation.

It is then up to the recipient of the EDD to judge whether their decisions should be adjusted accordingly.

Example OSINT framework



Example of OSINT data sources

Open Source Intelligence includes almost any data that is in the public domain and can be accessed remotely. That means many thousands of data sources, including:

- Search engines (mainstream and specialist)
- Publishers/publications
- Social media communities
- Chat forums & notice boards
- Marketplaces
- Companies House
- Commercial corporate registries
- Property registries
- Patent and trademark databases
- Dark web resources
- Internet archives
- Personal websites
- Institutional & corporate websites
- Leaked data - i.e Panama Papers, Wikileaks

Checklist of warning flags (individuals)

The primary aim of EDD is to identify potential issues that could create current or future risk. Possible 'warning flags' found when researching individuals include:

Claims & statements

- Inconsistent, disputed or unverified claims
- Outlandish/unbelievable

Digital content

- Libellous
- Derogatory
- Offensive
- Extreme religion
- Demonstrably false

Personal network

- Association with undesirable individuals/companies
- No discernible network

Media profile

- Negative or critical coverage
- Accusations of impropriety/ bad behaviour
- Appearances in disreputable publications

Background

- Gaps in career or education history
- Inconsistent entries
- Involvement with disreputable institutions/companies

Identity

- Multiple pseudonyms/identities
- No definite profile

Financial

- CCJs
- Evidence of insolvency

Checklist of warning flags (companies)

Investee companies also have associated content that can yield hidden issues, including:

Claims & statements

- Unverified or false patent and trademark claims
- Unverified or false product/service claims

Digital content

- Libellous
- Derogatory
- Offensive
- Extreme religion
- Demonstrably false

Corporate ecosystem

- Connection to undesirable entities
- Overly complex ownership structure

Media profile

- Negative or critical coverage

Customers

- Negative customer reviews
- Lack of customer reviews/feedback

Identity

- Multiple trading names
- Multiple addresses

Financial

- Incomplete accounts
- CCJs and charges

The limitations of EDD

EDD is dependent on information that is largely available in the public domain. Much of this content will have been generated by individuals and entities that are not subject to moderation or oversight. As a result, it is not always possible to be sure of the information's accuracy or veracity.

Fake news

The production of fake news is a growing digital problem. Practitioners of EDD need to be vigilant to spot obviously false content and to ensure that every piece of information is corroborated by other independent sources.

Lack of moderation

A lot of online content is published without moderation. People behave differently online and opinions, feedback and comments can sometimes tend towards the extreme. EDD therefore has to try and maintain objectivity when assessing the value of some digital content.

Privacy

Digital users now have various mechanisms for restricting access to content that relates to them. For example, major search engines enable individuals to 'be forgotten', removing historic content from public searches. In addition, access to data on individuals is subject to GDPR, making it harder to access user-specific information.



Contact us today to find out how D4 can enhance your due diligence and help your business minimize risk throughout the investment lifecycle.

contact@d4analysis.com

d4analysis.com