

FINTECH TROUBLE

CoAssets in the crosshairs of MAS, CAD on 'suspected misconduct'

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THE beleaguered CoAssets Group is now officially in the crosshairs of the Monetary Authority of Singapore (MAS) and the Commercial Affairs Department (CAD), in what is believed to be one of the highest-profile fintech investigation cases here following years of exponential growth in the fintech space.

Industry watchers say that this could draw further scrutiny to crowdfunding platforms and lead to debate on tightening regulations, but is unlikely to hinder the inexorable march of fintech development.

CoAssets' various companies are being probed for possible offences under the Penal Code and the Securities and Futures Act (SFA), on the back of complaints and feedback from investors regarding suspected misconduct.

Shaun Leong, partner in the dispute resolution and litigation team at Withers KhattarWong, told *The Business Times*: "This is without a doubt the largest case in recent memory. I believe the other major matter in the fintech space was the Wirecard episode."

Problems with CA Funding have been known by MAS – at least partially – since early last year.

Within the CoAssets Group, only its crowdfunding platform arm CA Funding is regulated by MAS as a capital markets services licensee.

In March 2020, MAS had issued directions to CA Funding to prohibit the company from listing new issuances, onboarding new investors and accepting subscription of securities. These came after MAS's inspection uncovered lapses in the company's credit assessment process, inadequate disclosure of information to investors, and failure to address conflicts of interests arising from dealings that the CoAssets Group had with entities related to issuers that CA Funding had listed on its platform.

Last December, CA Funding had informed MAS that it had failed to comply with the minimum base capital requirement under the SFA and intended to cease operations. MAS said that under its directive, all customers' monies held by CA Funding have since been returned to investors.

CA Funding had posted on its website at the start of this year that it is in the process of winding up. It has since revised its message to say that it is "still operating and will continue to address all queries from customers, and service customers on their outstanding investments", and is in the process of working out a business cessation plan.

In a nutshell: The CoAssets Saga

MAS-licensed CA Funding in spotlight, but CoAssets' other subsidiaries could face biggest scrutiny.

In December, it emerged US\$30m of receivables could not be recovered. Most retail investors affected are promissory noteholders of CoAssets' various subsidiaries.

Receivables sold to Debt recovery firm Sunfits, which told investors there is no "visibility" on any of the assets.

Former CoAssets COO Lawrence Lim – one its most vocal critics – alleged crowdfunding projects put up on CA Funding are fronted by special-purpose vehicles set up by related parties based in HK that CoAssets have lent money to. The risks of such projects and how beneficiaries were commercially related to CoAssets were not revealed to investors, he said.

He left CoAssets in March 2019, stating "irreconcilable differences" with founders Getty Goh and Seh Huan Kiat.

Many CoAssets investors agreed to extend payment deadlines as then-CEO Getty Goh had told them they were contractually guaranteed by real estate brokerage DWG and its director Denka Wee, on the back of merger talks. The merger did not happen. Mr Wee had told BT earlier he "does not recall signing the document".

Investors are now exploring legal options to claw back investments.

This comes as crowdfunding operators are required to have a plan in place to manage any cessation of business before they can wind up.

MAS said that it is "closely monitoring" CA Funding's implementation of its cessation plan to ensure that investors are treated fairly.

Observers told BT that the CoAssets episode could potentially result in regulatory changes impacting the fintech landscape.

Assistant Professor Ruan Tianyue of the department of finance at NUS Business School, noted: "With this 'suspected misconduct' by CoAssets affecting hundreds of investors, it is likely to spark caution in crowdfunding platforms."

According to her, one potential

change in the regulation is increased requirement on information disclosure, but she pointed out that the broader fintech development "may not necessarily be curbed".

Nydia Remolina, research associate with the SMU Centre for AI and Data Governance at the SMU School of Law, said that the CoAssets saga is "one of the major cases of fintech investigation in Singapore", but not the first time regulators have intervened in the fintech space.

With the evolution of fintech, "a closer look at the corporate governance of fintech companies and the risks potentially created by often complex corporate structures" is needed, she said.

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"This is a conversation that is just unfolding in the fintech space and will probably be accelerated because of cases like this," she added.

That being said, analysts do not think that this will derail the growth of fintech here.

Varun Mittal, global emerging markets fintech leader at Ernst & Young, said that there may be "speed bumps" in the course of fintech developments, but regulators have "always prioritised consumer protection and the stability of the financial sector".

With fintech lending still nascent and MAS putting in place "strong controls and governance", he believes that there is unlikely to be any contagion effect in the ecosystem.

"There is expected to be more awareness in consumers around the risks and return trade-offs when investing in alternate investment platforms, which will be a long-term advantage for the healthy growth of financial services," said Mr Mittal.

In response to BT queries, MAS said that it has enhanced the monitoring of the securities-based crowdfunding industry since the onset of Covid-19, in view of the widespread economic impact, especially on small and medium-sized enterprises which are the typical issuers on securities-based crowdfunding platforms.