



10 June 2019

KAPA ASSETS FROZEN OVER FRAUDULENT INVESTMENT SCHEME

The Court of Appeals has issued a freeze order on several banks accounts and other assets linked to Kapa-Community Ministry International, Inc. (KAPA), a nonstock corporation operating a fraudulent investment scheme.

The appellate court issued the freeze order on June 4 upon the petition of the Securities and Exchange Commission (SEC) and the Anti-Money Laundering Council (AMLC).

Under Section 10 of Republic Act No. 9160, or the Anti-Money Laundering Act of 2001, as amended, the Court of Appeals may issue a freeze order upon a verified *ex parte* petition by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity.

Among the unlawful activities covered by the anti-money laundering law are fraudulent practices and other violations under Republic Act No. 8799, or the Securities Regulation Code.

The Commission earlier revoked the certificate of incorporation of KAPA for serious misrepresentation as to what it can do or is doing to the great prejudice of or damage to the general public.

KAPA was found to have recruited and encouraged members to "donate" any amount in exchange for a 30% monthly return for life, without having to do anything other than invest and wait for the payout.

Such scheme constituted the sale and offer of securities, in the form of investment contracts, and required a secondary license, according to the SEC.

Under Section 8 of the Securities Regulation Code, securities shall not be sold or offered for sale or distribution without a registration statement duly filed and approved by the Commission.

Section 28 further states that no person shall engage in the business of buying or selling securities in the Philippines as a broker or dealer, or act as a salesman, or an associated person of any broker or dealer unless registered with the SEC.

In offering and selling securities, KAPA committed an *ultra vires* act exceeding the privilege granted to it and misrepresented itself to the public by concealing this investment scheme in the guise of a donation to entice the public to donating when in truth and in fact they are investing, the Commission noted.

The investment-taking activity of KAPA also constituted a Ponzi scheme, an investment program that offers impossibly high returns and pays investors out of the capital contributed by later investors.

The SEC noted that KAPA's investment scheme is unsustainable. To illustrate, KAPA will need P15 billion a month to pay 5 million members, who have contributed at least P10,000 each. Without recruiting new members or soliciting more investments from the public, the pooled funds will not last beyond three months.

Prior to issuing an order of revocation against KAPA, the SEC issued a cease and desist order (CDO) against the nonstock corporation on February 14. It subsequently made the order permanent after KAPA failed to file a motion for the lifting thereof within the prescribed period.

The CDO covered the partners, officers, directors, agents, representatives and all other persons acting for and in behalf of KAPA, which also operates as KAPA Kabus Padatuon (Enrich the Poor), KAPA/ KAPPA (Kabus Padutoon), KAPA-Co Convenience Store and General Merchandise, and KAPA Worldwide Ministry.

The SEC also issued an advisory against KAPA as early as March 2017, noting the nonstock corporation did not have a license to solicit investments from the public. It issued another advisory in October 2018 and in March 2019.

The Commission advises the public to be cautious in dealing with KAPA and to report to its head office or extension offices any continued investment-taking activity by KAPA and its allied entities.

For assistance, those who have invested money or have been invited to join KAPA may visit the SEC Enforcement and Investor Protection Department (EIPD) at Secretariat Building, PICC Complex, Roxas Boulevard, Pasay City or call (02) 818-6337 and (02) 818-5324.

They may also seek assistance from the SEC-Davao City Extension Office at SDC Building, Purok 13, Maa Road, Maa, Davao City; call (082) 298-2170 and (082) 298-1893; or email kipestares@sec.gov.ph. In Cagayan de Oro City, they may visit the Commission at the SEC Building, corner 14th and Tomasco Del Lara Street; call (088) 857-4325 and (088) 857-7225; or email rvegypto@sec.gov.ph.

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