

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1033

ANSWERED ON:05.08.2011

LURING OF GENERAL PUBLIC

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Will the Minister of FINANCE be pleased to state:

- (a) whether fraudulent activities of some online companies / multi-level marketing companies have come to the notice of the Union Government;
- (b) if so, the details thereof for each of the last three years and current financial year and action taken on each such cases;
- (c) whether such companies are luring general public offering a weekly investment with returns as interest therefrom;
- (d) if so, the details thereof and reaction of the Government thereto; and
- (e) the action taken by Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and other regulatory authorities against these online companies to protect and restore the money of small investors?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) to (e) :- Reserve Bank of India (RBI) has reported that no Non-Banking Finance Companies (NBFCs) can commence business without obtaining a Certificate of Registration (CoR) under the RBI Act, 1934. Contravention of these provisions attracts penalties. RBI has reported that it has taken appropriate action against illegal entities / companies whenever information of the same has been received by it. Some names which have been featuring in the media recently such as Speakasia, UniPay etc. are not registered with RBI as NBFCs, and do not appear to be doing NBF activities. RBI has reported that they had received complaints that certain Multi-Level Marketing (MLM) companies – some of which are based in Singapore like Speakasia, have been operating in India through agents purportedly conducting online surveys. RBI forwarded such complaints against online / MLM companies to the Economic Offences Wing (EOW) of the police authorities of the concerned State.

Entities which raise monies from public come under the jurisdictions of various regulatory bodies e.g. the Non-Banking Financial Companies are under the regulatory and supervisory jurisdiction of RBI; Nidhis, chit funds and money circulation schemes are under the State Governments; and Collective Investment Schemes (CIS) are under the Securities and Exchange Board of India (SEBI). SEBI notified SEBI (CIS) Regulations in October 1999. Subsequently, out of the 664 CIS entities SEBI had information about, 54 CIS entities wound up their schemes and refunded the money to the investors. SEBI issued directions under Section 11B of the SEBI Act, 1992 to the remaining 610 entities directing them to refund the money collected under the schemes with returns due to the investors as per the terms of the offer within a period of one month from the date of the Order. 21 CIS entities wound up their schemes and repaid the investors. Hence a total of 75 CIS entities (54+21) had wound up their schemes and refunded the money to investors. In 19 cases, courts issued stay orders/ appointed official liquidators/ administrators.

SEBI has reported that it has taken action against the remaining 570 CIS entities that failed to wind up their schemes and repay to the investors, which inter-alia, includes launching of criminal prosecution against such entities, debarring these entities and their concerned officials from operating in the capital market and requesting the State Governments to initiate Civil / Criminal action against them. Further, recently SEBI has also passed orders against the Sun-Plant Agro Ltd., Rose Valley Real Estate and Constructions Ltd. and Nicer Green Forests Ltd. for carrying out CIS activities without getting registration from SEBI.

As regards Multi-Level Marketing (MLM) / ponzi Schemes, RBI has been advising to the Chief Secretaries of the State Government / UT Administrations that whenever transactions put through by MLM Companies resembling ponzi schemes are brought to the notice of the Government, such cases should be investigated by the concerned State Government taken appropriate action. RBI has also issued a press release on November 29, 2010 cautioning general public about unauthorized companies collecting deposits from public. Thus, RBI has taken proactive measures to caution the public and has also alerted State Governments whenever such instances have come to its notice.

RBI has further reported that 14 State and 1 Union Territory have so far passed the Protection of Interest of Depositors' Act, which empowers the concerned State / UT Government to take action against entities collecting money from the public by making false promises regarding unreasonable rates of interest on deposits.