

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:4686

ANSWERED ON:04.05.2012

OPERATION OF FRAUDULENT INVESTMENT SCHEMES

Annayagari Shri Sai Prathap; Mitra Shri Somendra Nath

Will the Minister of FINANCE be pleased to state:

(a) whether Government has received reports about operation of various fraudulent investment schemes in the country and if so, the details thereof for the last three years and the action taken thereon;

(b) whether Government has received complaints from small investors about floating fraudulent investment schemes such as Multi Level Marketing, Land Ownership Scheme, Gold Ownership Scheme by some companies to lure common man and cheat them after collecting money;

(c) if so, the action taken/proposed to be taken by the Government against the operators of such schemes alongwith the steps being taken to protect the small investors; and

(d) if so, the details thereof and if not, the reasons therefor?

Answer

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

(a) to (d): Entities which raise monies from public fall under the jurisdictions of various regulatory bodies, such as, the Non-Banking Financial Companies (NBFCs) are under the regulatory and supervisory jurisdiction of the Reserve Bank of India (RBI); Chit Funds and Money Circulation Schemes are under the State Governments; Collective Investment Schemes under the Securities and Exchange Board of India (SEBI); etc.

RBI has reported that Multi Level Marketing (MLM) Companies are banned under the Prize Chits and Money Circulation Schemes (Banning) Act, 1978 and fall under the purview of the State Governments. Further, whenever a company including a NBFC is declared as vanished after accepting the deposits from the public, the matter is referred to the Economic Offences Wing of the concerned State Government to investigate the case and take legal action including penal action as per the Indian Penal Code / Criminal Procedure Code, as considered appropriate.

SEBI has the mandate of investor protection and the entities are examined under the Collective Investment Schemes under SEBI Act. There have been many companies that have been penalized for conducting operations in violation of the SEBI (Collective Investment Schemes) Regulations, 1999.

The Government on becoming aware of such companies by way of Press Release issued in November 1997, mandated that all such companies need to be registered with SEBI for conducting their business. As per the information filed by plantation entities with SEBI, in 1998-99, around 664 entities had collected a total of Rs. 3,518 crore.

SEBI notified SEBI (CIS) Regulations in October 1999. Subsequently, out of the 664 CIS entities about which SEBI had information, 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. Subsequently, 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 552 cases, SEBI has launched prosecution against the entities and its directors under SEBI Act, 1992