

**GOVERNMENT OF INDIA  
CORPORATE AFFAIRS  
LOK SABHA**

UNSTARRED QUESTION NO:1078

ANSWERED ON:29.11.2012

MLM

Adsul Shri Anandrao Vithoba; Dharmshi Shri Babar Gajanan; Gowda Shri D.B. Chandre; Jeyadural Shri S. R.; Yadav Shri Dharmendra

**Will the Minister of CORPORATE AFFAIRS be pleased to state:**

- (a) whether large number of innocent investors have been cheated by Multi-Level Marketing companies in the country during the last three years and the current year;
- (b) if so, the details thereof, State and year-wise;
- (c) whether there are no rules to govern the Multi-Level Marketing Companies;
- (d) if so, the reasons therefor;
- (e) whether the Union Government is considering to come out with the rules governing Multi-Level Marketing (MLM) firms, which have been traced to several ponzi schemes across the country;
- (f) if so, the details thereof along with the timeframe therefor;
- (g) whether there is no early warning system to prevent such corporate frauds;
- (h) if so, the details thereof; and
- (i) the steps taken by the Union Government to introduce early warning system to prevent such corporate frauds?

**Answer**

THE MINISTER OF STATE (INDEPENDENT CHARGE) IN THE MINISTRY OF CORPORATE AFFAIRS (SHRI SACHIN PILOT)

(a) to (i) Ponzi and Multi-Level Marketing (MLM) schemes fall within the purview of 'Money Circulation' which is an offence under the Prize Chits and Money Circulation Schemes (Banning) Act, 1978. That Act is administered by the Ministry of Finance (Department of Financial Services) through the State Governments. Recently, Ministry of Finance in consultation with the Reserve Bank of India, have circulated Model Rules to be notified by the States. These rules make it amply clear that investment schemes run in the MLM mode are illegal under the above Act and organizers of such schemes need to be prosecuted. While coordinating action against such schemes lies with the States and the nodal Ministry, the Ministry of Corporate Affairs has so far received complaints against 86 Companies mostly located in West Bengal and Tamil Nadu States and one company registered outside India doing business on-line in association with some Indian companies. This Ministry has ordered investigation into the affairs of 7 companies under Section 235 of the Companies Act, 1956 to be conducted by Serious Fraud Investigation Office (SFIO) and scrutiny of balance sheets under section 234 and/or inspection of the Books of Accounts and other records of the remaining 80 companies under Section 209A of the Companies Act, 1956 to ascertain, if the activities involve violation of the provisions of the Companies Act, 1956.