

**GOVERNMENT OF INDIA
CORPORATE AFFAIRS
LOK SABHA**

STARRED QUESTION NO:244

ANSWERED ON:14.03.2013

PHALGUNA SAKA FRAUDS BY COMPANIES

Adhi Sankar Shri ;Gowda Shri D.B. Chandre

Will the Minister of CORPORATE AFFAIRS be pleased to state:

- (a) whether the Government has any records of the number of dubious companies including fly-by-night companies that have duped investors and the number of investors who have been cheated into making investments in these companies;
- (b) if so, the details thereof along with the estimated amount of investments involved therein and the action taken against such companies for the last three years, State/ UT-wise;
- (c) whether the Government proposes to develop a fraud prediction model that will forewarn law enforcement agencies about any suspicious movement of money in the market and strengthen its market research and analysis unit;
- (d) if so, the details thereof; and
- (e) the other effective measures taken/ being taken by the Government to sensitize the people about investment scenario in the country and to address the problem ?

Answer

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

(a) to (e) A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (e) OF THE STARRED QUESTION NO. 244 FOR ANSWER IN LOK SABHA ON 14-03-2013

(a) & (b)(i) Cheating of investors by unscrupulous companies takes many forms, such as: 'vanishing' after raising money through public offers; illegal collection of deposits in violation of Section 58A of the Companies Act, 1956; floating sham 'Collective Investment Schemes (CIS)' in violation of SEBI Act; collecting money from public by posing as 'Non-Banking Financial Companies (NBFCs)' in violation of RBI Act; and resorting to 'Ponzy' or money circulation schemes under the Prize Chits and Money Circulation Schemes (Banning) Act, 1978.

The Ministry has taken action against certain companies (vanishing companies) which have raised funds through initial public offer but thereafter are not traceable. The Ministry has also taken action against certain companies which have failed to repay deposits to public violating Section 58A of the Companies Act, 1956. Details of state-wise vanishing companies and companies violating Section 58A of the Companies Act, 1956 in connection with acceptance of deposits from the public are indicated in Annexure-A and B, respectively.

Complaints of cheating by companies which promised high rates of interests to investors have been received in 87 cases as detailed in Annexure-C. In these cases inspection under Section 209A/ Investigation under Section 234 of the Companies Act, 1956 has been ordered.

(ii) 669 companies came to the notice of SEBI for conducting operations in violation of SEBI (Collective Investment Schemes) Regulations, 1999. The amount collected by these companies was about Rs 7435 crores. Out of these companies, 75 have been wound up and the money refunded to the investors. 552 companies were prosecuted; convictions have been secured in 124 cases.

(iii) RBI also regulates deposits / investments of the public with Non- banking Finance Companies (NBFC) that are registered with RBI. Complaints received against companies posing as NBFC's and Unincorporated bodies indulging in cheating / fraud are forwarded by RBI to the Economic Offenses Wing of the State Police for investigation and further action.

(iv) There are certain companies which have floated fraudulent investment deposits mobilizing schemes (also called ponzi schemes) under various guises and are liable for action under the Prize Chits and Money Circulation Schemes (Banning) Act, 1978. This Act is administered by Ministry of Finance (Department of Financial Services) through the State Governments and figures of prosecution etc. are not being maintained centrally.

(c) & (d) The Ministry has constituted a Steering Committee to develop a "Fraud Prediction Model" aimed at generating alerts for prevention of fraud and malfeasance. It is also proposed to revamp the existing Market Research & Analysis Unit (MRAU) in the

Serious Fraud Investigation Office (SFIO) to enable it to function as an intelligence unit.

(e) The concerned regulatory agencies of the Central Government have adopted different measures aimed at sensitizing the public of the need to be cautious while making investments into schemes, etc. The Ministry of Corporate Affairs conducts Investor Awareness Programs (IAP's) for making the public aware of the various instruments of investments available to them. Similarly, RBI issues notice in newspapers regularly to caution the public against the design of entities in collection of deposits illegally. Editors of Newspapers are also sensitized to exercise caution for accepting advertisements pertaining to acceptance of deposits by un-incorporated bodies. Presently, RBI is in the process of undertaking a comprehensive campaign aimed at alerting the public against falling prey to the Ponzy schemes and other monetary mal-practices. SEBI also conducts Investor Awareness Programs in cities / towns across the country and has recently launched publicity campaigns through electronic and print media.