

**GOVERNMENT OF INDIA
CORPORATE AFFAIRS
LOK SABHA**

STARRED QUESTION NO:429

ANSWERED ON:25.04.2013

FINANCIAL FRAUDS

Alagiri Shri S. ;Paranjpe Shri Anand Prakash

Will the Minister of CORPORATE AFFAIRS be pleased to state:

- (a) whether the Government is considering to grant statutory status/ powers to the Serious Fraud Investigation Office (SFIO);
- (b) if so, the details thereof;
- (c) the number of cases referred to SFIO during each of the last three years, till date, company-wise;
- (d) the number of cases investigated during the said period along with the action taken thereon, company-wise;
- (e) whether SFIO proposes to develop an early warning system to detect frauds and if so, the details thereof and the time by which it is likely to be put into operation?

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. 429 FOR ANSWER IN LOK SABHA ON 25-04-2013

(a) & (b) Yes Madam, the Government has proposed to grant statutory status to Serious Fraud Investigation Office (SFIO) and accordingly has incorporated enabling provisions in Clause 211 of the Companies Bill, 2012.

In addition to according statutory status, the following are some of the other important provisions relating to the functioning of SFIO proposed in the Companies Bill, 2012 :

'Fraud' defined and made cognizable;

Coordination mechanism between SFIO and other investigating agencies statutorily recognized;

Investigation Report of SFIO shall be treated at par with investigation report filed in the court by a Police Officer under Criminal Procedure Code;

Powers of arrest for certain offences;

(c) & (d) During the last 3 years (2010-11, 2011-12 and 2012-13), 64 cases were referred to SFIO; company-wise details are given in ANNEXURE-I. During this period, investigations have been completed in 55 cases; company-wise details are given in ANNEXURE-II.

Out of these 55 cases in which investigations were ordered by the Ministry, 26 were ordered on the basis of directions of various High Courts for investigations. In most of the cases referred by High Courts, specific issues were referred for investigation and action taken was limited to filing of investigation report to the courts. It is the prerogative of the High Courts to take action on the investigation reports. However, the Ministry also issues instructions on the findings in these reports if there are violations of law.

In cases referred by the Ministry under Section 235 of the Companies Act, sanctions are given for prosecution whenever necessary. In 20 cases, 79 complaints have been filed under the Companies Act and 6 complaints have been filed under the Indian Penal Code (IPC), 1860.

(e) Yes, Madam. It is under active consideration of the Ministry of Corporate Affairs to develop a "Fraud Prediction Model" for generating early warning signals for prediction of fraud and malfeasance in the corporate sector.

A High-powered Steering Committee has been set up with technical experts in various fields to design a comprehensive framework for a fraud prediction model. The terms of reference, include drawing up of a detailed plan for implementation including timeline for testing a pilot.

The Steering Committee has submitted its draft report to SFIO which is under consideration. It is expected that the pilot testing of the model will be done within the current financial year (2013-14). Model development being a highly iterative process, the pilot would start as "Fraud Propensity Model" to be fine tuned over time into a predictive model.