

**GOVERNMENT OF INDIA  
CORPORATE AFFAIRS  
LOK SABHA**

STARRED QUESTION NO:324  
ANSWERED ON:13.02.2014  
CHIT FUND SCAM  
Anandan Shri K.Murugesan

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

- (a) whether the Serious Fraud Investigation Office (SFIO) has submitted its interim report to the Ministry on the Chit Fund scam and if so, the details of the important findings thereof;
- (b) whether the SFIO has blamed lack of coordination between Government agencies for the proliferation of illegal collective investment schemes across the country where investors have lost their money;
- (c) if so, the details thereof;
- (d) whether the SFIO has urged the Government to take pre-emptive action to protect the life time savings of small investors; and
- (e) if so, the details thereof along with the steps taken/ being taken by the Government in this regard?

**Answer**

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

(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. 324 FOR ANSWER IN LOK SABHA ON 13-02-2014

(a) to (e) The Serious Fraud Investigation Office (SFIO) has submitted a Status report of investigations into the affairs of 54 'Chit Fund Companies' operating from the Eastern States of the country. As per the Status report, information has been collected from the computer servers of the companies located in India. However, there are difficulties in accessing information stored in the servers located outside India. It is also reported that these companies were mobilizing huge funds from the public for booking of land, flats and various other activities to camouflage receipts of deposits from public in violation of provisions of Section 58A of the Companies Act, 1956 and the ban on 'money circulation' under the Prize Chits and Money Circulation Schemes (Banning) Act, 1978 (Prize Chits Act).

The Status report points out that promoters of such companies have taken advantage of multiple legislations with overlapping jurisdictions. This aspect along with other issues to deal effectively with the activities of so called chit fund companies have been entrusted to an Inter-ministerial Group (IMG) constituted by the Ministry of Finance for better inter-agency coordination in such matters. The Group has representatives from Ministry of Finance, Ministry of Corporate Affairs, Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI). The IMG is in the process of finalizing its recommendations which will address the points raised by SFIO and facilitate coordinated response in such cases.

Ministry of Corporate Affairs, though not directly involved with the administration of either the Prize Chits Act or the Chit Funds Act, 1982, has on its part taken following steps:

- (i) A communication has been sent to the Hon'ble Finance Minister drawing attention to more than 34000 finance companies operating without registration with the RBI as Non-Banking Finance Companies (NBFCs) with a request to initiate criminal action under the Reserve Bank of India Act;
- (ii) Another communication has been addressed to the State Chief Ministers requesting for directions to the State Police Authorities to invoke the provisions of Prize Chits Act against unscrupulous persons/ entities;
- (iii) Ministry has taken a lead in collaboration with other government agencies to prepare Draft Model Rules clearly bringing the so-called 'pyramidal sale' and 'MLM' Techniques within the purview of 'Money Circulation' under the Prize Chits Act. The rules have been circulated by the Department of Financial Services to the States for notification;
- (iv) SFIO has been directed to share information of its analysis of the activities of 54 'chit fund companies' with the Economic Offences Wings of Police of the concerned States and the Enforcement Directorate.
- (v) SFIO investigations are continuing in coordination with Banks and thorough search and seizure operations of many of the companies where promoters have not cooperated with investigations.

