

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:515

ANSWERED ON:11.05.2012

DEPOSIT SCHEMES THROUGH UNREGISTERED COMPANIES

Roy Shri Mahendra Kumar;Sudhakaran Shri K.

Will the Minister of FINANCE be pleased to state:

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(a) whether the Government has taken note of some finance entities raising money from public through unregistered finance companies and fraudulent investment schemes;

(b) if so, the details thereof for each of the last three years and the current year till date;

(c) whether action has been taken against such companies;

(d) if so, the details of the action taken alongwith the status thereof during the above period; and

(e) the corrective action taken to protect the citizens from such fraudulent schemes?

Answer

FINANCE MINISTER (SHRI PRANAB MUKHERJEE)

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

STATEMENT REFERRED TO IN REPLY TO PART (a) TO (e) OF LOK SABHA STARRED QUESTION NO. 515 FOR 11TH MAY, 2012 TABLED BY SHRI MAHENDRA KUMAR ROY AND SHRI K. SUDHAKARAN REGARDING DEPOSIT SCHEMES THROUGH UNREGISTERED COMPANIES.

(a) to (d): The entities raising monies from public fall under the jurisdictions of various regulatory bodies, e.g., the Non-Banking Finance Companies (NBFCs) are under the regulatory and supervisory jurisdiction of Reserve Bank of India (RBI), Collective Investment Schemes (CIS) are under the Securities and Exchange Board of India (SEBI), and Chit Funds and Money Circulation Schemes fall under the executive jurisdiction of the State Governments.

RBI has informed that no instance of cheating and other fraudulent activities by any NBFC has been reported to it. As and when any complaint about un-authorised activities of NBFCs / un-incorporated bodies is received by RBI, prompt appropriate action is initiated and if necessary, such complaints are also forwarded to the Economic Offence Wing (EOW) of the concerned State for appropriate action. RBI also issues public advisory / notices, in the public interest, clarifying / cautioning members of public about activities of companies / NBFCs / other entities in widely circulated newspapers. The members of the public are also advised to refer their complaints against such activities to the EOW of the State Government.

SEBI notified Securities and Exchange Board of India (Collective Investment Schemes) 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.

(e): The Companies Act, 1956 has provisions on Regulation of Public Deposits (Section 58A), Inspection (section 209A), Investigation (section 235/237), Scrutiny of documents (section 234), Search and Seizure (section 240A), and on penalties and prosecutions, etc. to curb the financial frauds committed by the companies registered under the Act. Further, the Securities and Exchange Board of India (SEBI) enacted Securities and Exchange Board of India (Collective Investment Schemes) Regulations, 1999 to regulate Collective Investment Schemes (CIS) in the interest of the investors and the securities market. In terms of the provisions contained in the Reserve Bank of India Act, 1934, RBI is empowered to act against the Non-Banking Finance Companies (NBFCs) which accept public deposits and do not repay, and also against un-incorporated bodies accepting public deposits.

As and when the activities of any such entity is brought to the notice of the Government or the regulators, the same is examined for appropriate action by the concerned authorities, including the regulators, the enforcement / investigating agencies, and the State Governments.