

**GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS**

**RAJYA SABHA
UNSTARRED QUESTION NO. 1741
ANSWERED ON TUESDAY, THE 09TH DECEMBER, 2014**

DUPING OF INVESTORS BY DUBIOUS FIRMS

QUESTION

1741. SHRI A. U. SINGH DEO:

Will the Minister of CORPORATE AFFAIRS be pleased to state:

- (a) whether Government has record of dubious firms that have duped investors, the number of investors who have been tricked into making investments in these firms and estimated worth of investments made by investors in these firms;
- (b) the number and details of such firms that have been caught and penalised;
- (c) the details of the penal action, the current regulation provides for;
- (d) whether Government is making any efforts to reduce such frauds, increase stringency of punishments and protect investors; and
- (e) if so , the details thereof and if not, the reasons therefor ?

ANSWER

THE MINISTER OF CORPORATE AFFAIRS

(SHRI ARUN JAITLEY)

- (a) A total of 238 companies which had raised funds through Public issues were initially identified as “Vanishing Companies” as they had stopped filing documents/balance sheets with the regulators and were untraceable. Out of these, 128 companies were removed from this category and placed under a “watch list”, as these companies had started filing their documents/balance sheets, etc. In addition, 32 companies are presently under liquidation. Thus, as on date, there are 78 companies which remain in the list of “Vanishing Companies”. The total amount of Public Issues made by these 78 companies was Rs. 310.21 crore (approx.).
- (b) (1) FIRs have been lodged against 78 such companies and their Directors and to trace their whereabouts as well as to file cases against them under the provision of the Indian Penal Code (IPC).
- (2) Prosecutions have also been filed against these companies and their Promoters/Directors under sections 162 and 220 of the Companies Act, 1956 for non-filing

of Statutory Returns and under sections 62/63, 68 and 628 of the Companies Act, 1956 for mis-statement in Prospectus/fraudulently inducing persons to invest money/false statements made in the offer documents, etc.

(c) Section 447 of the Companies Act, 2013 provides for punishment for fraud. In addition, other relevant provisions contain penal provisions for default. Section 450 also provides for punishment where no specific penalty or punishment is provided in the Act.

(d) & (e) A number of steps have been taken by the Government to save investors from frauds including frauds by vanishing companies. Attention is, in particular, invited to the following:

i) It has been made mandatory for every existing or prospective directors to obtain a “Director Identification Number” (DIN). This process requires detailed verification of particulars of a person along with a photograph, identity proof, residence proof etc. so that traceability of the directors is ensured. Requirement of DIN, therefore, makes it difficult for individuals promoting dubious companies to defraud investors by hiding or misrepresenting their identity.

ii) In case of incorporation of a new company or change of address of an existing company, the Ministry has made it mandatory for professionals to verify details of the company and to personally visit their premises and certify that the premises are at the disposal of the company. In such cases, proof of registered address has also been made mandatory to be furnished at the time of incorporation or change of registered office address.

iii) Instructions have also been issued to the Registrar of Companies to scrutinize the Balance Sheet and other records of the company who raise money through public issue and monitor the utilization of such funds.

iv) The Ministry has also undertaken preemptive measures aimed at sensitizing people through investors awareness programmes. These programmes are organized regularly in association with the three professional institutes-Institute of Chartered Accountants of India (ICAI), Institute of Cost Accountants of India (ICAI) and Institute of Company Secretaries of India (ICSI) in various cities. Since 2012-2013, MCA has also started organizing such programmes in rural areas through CSC e-Governance Services India Ltd, an entity under Department of Electronics and Information Technology. 2897 such programmes were conducted during 2013-2014.

