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The Anatomy of Corporate Deceit: Understanding Fraudulent Practices

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ABSTRACT

This article aims to find answers to questions such as: what is the meaning of corporate deceit/fraud, its categories, regulations related to it, whether the existing regulations are capable of preventing corporate fraud, and what are the consequences of it. Further, the cases of corporate fraud in India will be discussed with detailed analysis. Finally, this article will be concluded while analyzing the current scenario of corporate fraud in India and shedding light on plausible solutions to prevent it.

Keywords: *corporate fraud, corporate espionage, regulatory framework, reputational damage.*

I. INTRODUCTION

On January 24th, 2023, the billionaire Gautam Adani-led conglomerate was accused by the US-based investor research firm Hindenburg Research of decades-long accounting fraud schemes and stock manipulation². That is, the then World's 3rd richest man was accused of committing a corporate fraud, the "largest con" in corporate history. Later, SEBI gave 22 out of 24 reports in favor of Adani, leaving 2 reports still pending. This has been a recent case of corporate fraud in India that gained quite some attention even from the public.

To understand what corporate fraud is, we will first see definitions of "corporation" and "fraud" separately.

A *corporation* can be defined as an independent legal body that exists independently of its owners. Corporations consists of many similar legal rights and obligations as individuals. For example, they have the authority to hire staff, make contracts, loan and borrow money, sue and be sued, own property, and file taxes.

A *fraud*, in its widest definition, is a deliberate deception committed for one's own benefit or to harm another individual or organization.

Hence, *corporate fraud or deceit* can be described as unlawful actions by an individual or

¹ Author is a PhD Scholar at KIIT School of Law, India.

² *Adani Group: How The World's 3rd Richest Man Is Pulling The Largest Con In Corporate History*, Hindenburg Research, (Jan 24, 2023), <https://hindenburgresearch.com/adani/>

organization carried out dishonestly or unethically. Generally, this type of business fraud intends to benefit the person or business committing it. It is defined as the deliberate falsification of a company's financial information or acts taken by the company to mislead the public in an effort to boost profits. Corporate fraud cases that are typical are intricate, intensely confidential, and, in the event that they are made public, include the financial injustices and delusions the company has perpetrated.

II. CATEGORIES OF CORPORATE FRAUD³

Corporate fraud is mainly divided into 3 categories which are further divided into sub-categories and sub-sub-categories.

i. Misappropriation

It is the theft or misappropriation of company funds or property. Directors, staff members, or others entrusted with the company's assets may carry it out. Asset misappropriation schemes comprise frauds where the perpetrators use cunning to pilfer or misappropriate the assets of the organization. Cash, credit cards, and vouchers are examples of assets that can be stolen. It includes illegal activities such as theft of cash, fraudulent disbursements, misuse, larceny, accounting fraud, deceiving investors, etc. Asset misappropriation is still a major issue for companies of all kinds. Because of this, it's critical for companies to implement robust internal controls in order to stop and identify asset theft.

ii. Corruption

Corruption and bribery are significant economic crimes because they impede a company's ability to grow economically. Bribery is the offering, providing, or receiving of anything that has the power to sway an official decision. Bribery, receiving illicit benefits, and economic extortion are all included in the much broader definition of corruption. Workers mishandle their influence in business dealings in order to benefit themselves or another party. Recent cases show that, with the assistance of the company board, CEOs and managing directors have been directly involved in bribery to obtain projects and approval that exceed their qualifications. Even though financial statement fraud and asset theft are more frequent than corruption schemes, they can nonetheless have a big effect on a company. Corruption can be hard to spot and frequently goes unnoticed for years. It includes obtaining political support to commit fraud, fraudulent payments, bribing authorities, and helping and abetting.

³ Zehra Maccawala, *What are the common types of corporate frauds?*, ZMAS, (Aug, 8, 2022), <https://www.zmas.in/what-are-the-common-types-of-corporate-frauds/>

iii. Financial Statement Fraud

These schemes involve the deliberate creation of a material misstatement or omission in the financial statements of the organization by the perpetrator. The organization's financial stability may be severely impacted by this, and losses of hundreds of thousands of dollars may result. It includes asset overstatement and understatement, fictitious revenue, improper asset valuation, etc.

A few other types include: corporate espionage, investment trends, and insider trading.

iv. Corporate espionage

Industrial espionage and "corporate espionage" have come to be synonymous terms. Corporates began turning to creative means of obtaining information about rival companies as business ventures became more competitive. To benefit their own company, officials remove or copy valuable or confidential information belonging to a rival. This is how trade secrets are stolen. This type of fraud provides financial benefits to corporations.

v. Investment trends

Scams involving investments cause investors to lose money and sometimes even their lives. The perpetrator is able to obtain the proceeds of the scam thanks to weaknesses in the investment system. The sole purpose of bogus companies is to conceal and manipulate bogus transactions. The Sahara Group scam, Ketan Parekh, and Harshad Mehta are just a few of the names that the Indian stock market will always remember.

vi. Insider trading

Insider trading is the term used to describe the trading of a company's stocks or securities by individuals who are expected to have access to confidential information about those securities. It is illegal to take advantage of such information in accordance with the various securities laws of various nations. The *Rajat Gupta Case*⁴ is one of the biggest scandals in history of US for the offence of insider trading.

In India, the most common types are investment scams, employee fraud, vendor fraud, financial fraud, asset misappropriation, and customer fraud.

Other types of fraud include embezzlement, the material possessions, or sensitive data; misuse of accounts; fraud in the procurement process; fraud in payroll processing; suspense accounting;

⁴ Anita Raghavan, *Street Scammer, Returns to Drop Dimes on Goldman, Preet, and Former Homie Raj Rajaratnam*, Vanity Fair, (Mar 24, 2019), <https://www.vanityfair.com/news/2019/03/raj-gupta-wall-street-scammer-returns-to-drop-dime-on-preet-and-raj-rajaratnam>

fraudulent or false expense claims; and false employment credentials.

III. REGULATIONS RELATED TO CORPORATE FRAUD

Some of the regulations related to corporate fraud in USA and Europe include the Sarbanes Oxley Act, Foreign Corrupt Practices Act, Patriot Act, OECD Guidelines, and IIA Guidance. While, in India, the anti-fraud legislations or regulations are the Indian Contract Act (1872), Indian Penal Code, Prevention of Corruption Act, Prevention of Money Laundering Act, the Companies Act (1956), Clause 49 of Listing Agreement, and CARO (2003).

(A) In India

a. The Indian Contract Act, 1872

According to Section 17 of the Act, "Fraud" is defined as any of the following actions taken with the intent to deceive another party or fool an agent into signing a contract, by a party to a contract, with his knowledge or approval, or by his agents.

- the suggestion, by someone who does not believe it to be true, of something that is false;
- the deliberate hiding of a fact by someone who knows or believes it to be true;
- a pledge given with no intention of following through; ·any other act calculated to deceive;
- any act or omission that the law expressly declares to be fraudulent

b. The Indian Penal Code, 1860

According to Section 25 of the Indian Penal Code, an act is considered fraudulent if it is committed with the intention of defrauding someone, but not otherwise.

c. The Companies Act, 2013

The 2013 Companies Act in India has brought in a number of new provisions that have altered the corporate landscape in the country. A number of broad regulations have been helpful in stopping and identifying frauds that were previously undetected. Several Indian statutes contain provisions pertaining to corporate frauds. The Companies Act 2013 is one such statute that aims to prevent and curtail corporate frauds.

Corporate Social Responsibility is one of these new regulations. Give and take is the guiding principle of corporate social responsibility. Businesses use resources from society in the form of labor, raw materials, etc. Through completing the CSR tasks, the businesses are returning a

favor to the community. According to the CSR Rules, foreign companies' branch and project offices in India are also subject to the CSR provisions, in addition to Indian companies.

Corporate fraud-related provisions are covered by the Companies Act of 2013. Section 447 of the Companies Act, 2013 states that a fine equal to the amount of money involved in the fraud, plus an additional sum that could be up to three times the amount involved, awaits anyone found guilty of fraud. The minimum sentence is six months in prison, the maximum is ten years.

Regulatory bodies under the companies act, 2013: A country's regulators have two main roles: they carry out and uphold the law. According to the Companies Act, the *National Company Law Tribunal (NCLT)* and the *Serious Fraud Investigation Office (SFIO)* are regulators for corporate frauds⁵.

(B) Outside India

a. In the US

The President's Corporate Fraud Task Force was established by Executive Order in 2002, and since then, it has made a significant effort to hold wrongdoers accountable and to rebuild integrity and accountability in corporate America. Utilizing a combination of conventional inquiry methods and recently developed instruments made available by Congress upon the President's request, the Task Force has encouraged corporate transparency and accountability while penalizing corporate misconduct.

The Department of Justice is accepting its historic enforcement role and remains dedicated to protecting the integrity of the financial and commercial markets. When fraudulent activity occurs, the Department is in a unique position to enforce the law against business organizations, as well as the directors, officers, employees, and professional advisors who work for them.

b. In UK

In an effort to facilitate the prosecution of major corporations for economic crimes, the UK government is broadening the definition of corporate criminal liability in the country.

In S. 199 of the Economic Crime and Corporate Transparency Act 2023, the failure to prevent fraud is being introduced as a new corporate criminal offense. This implies that the burden of proof for prosecutors to prove that a company's "directing mind and will" was behind the fraud will no longer be required.

c. In France

⁵ Shweta Wadhvani and Dr. Hema Menon, *Corporate Frauds: Emerging issues and Preventive strategies*, Bharati Law Review, (Dec, 2017)

The French Commercial Code's Article L.242-6 states that directors may face criminal penalties for making false financial statements. The maximum sentence for this offense is imprisonment of five years and a fine of €375,000 (Rs. 3,41,40,375 apprx.)

The penalty for fraudulent management that results in bankruptcy is €75,000 (Rs. 68,28,075 apprx.) in fines and up to five years in jail.

IV. IMPACT OF CORPORATE FRAUDS

Corporate fraud has far-reaching effects that impact not just businesses but also society at large. We will try to understand its cascading effect.

i. Economic Consequences

Corporate frauds have the potential to destroy a country's economy. Financial markets become unstable when businesses commit fraud, as investors lose faith in them. Stock values plunge, and growth in the economy stalls.

A clear reminder of the devastating effects corporate fraud can have on the economy is provided by the US Enron scandal of 2001. Because Enron's bankruptcy had a cascading effect on other companies and investors, the effects were felt not just in the United States but also internationally.

Corporate frauds have also caused damage in India. For example, the Satyam scandal damaged the reputation of the Indian IT industry and caused a brief decline in trust in corporate governance.

ii. Reputational Damage

Reputation damage is frequently irreversible. Rebuilding trust with partners, investors, and customers can take years when a business is involved in a fraud scandal. Damage to one's reputation may even result in bankruptcy.

One of the most notorious corporate fraud cases in India, the *Nirav Modi scandal*, caused serious harm to Punjab National Bank's reputation. The bank faced a difficult journey to rebuild trust after its reputation was damaged.

iii. Legal and Regulatory Implications

Corporate fraud is prohibited by law in addition to being unethical. Corporate fraud convictions carry harsh legal repercussions, such as large fines and lengthy jail terms. However, the regulatory environment in place frequently affects how successful legal actions are.

Regulators in India have put in a lot of effort to improve the regulatory environment, including

the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI). To stop corporate fraud, strict rules and guidelines have been implemented.

In spite of these efforts, there are still regulatory gaps, and it is difficult to effectively enforce compliance because financial technology is evolving at a faster rate than regulatory frameworks.

V. ROOT CAUSES OF CORPORATE FRAUD

To effectively combat corporate fraud, it is imperative to comprehend its underlying causes and contributors.

i. Cultural Factors

Corporate fraud may arise from cultural factors like the acceptance of unethical behavior or the mindset that "it's okay" or that "it's normal" or "it happens". The challenge of altering these deeply ingrained cultural norms is great.

ii. Lack of Corporate Governance

Corporate fraud frequently finds a home when corporate governance frameworks are weak. A climate that encourages fraudulent activity can be produced by insufficient checks and balances, a lack of transparency, and the concentration of authority among a limited group of individuals.

iii. Weak Regulatory Framework

Although India's regulatory framework has advanced significantly, it still has difficulties keeping up with changing financial practices. To stay ahead of the game, regulatory bodies must constantly adapt to new fraud techniques.

iv. Technological Advancements

Technology is advancing, and so are the strategies used by con artists. Financial fraud and cybercrimes now have more opportunities thanks to the digital age. It is essential to remain aware of these developments in order to maintain current security protocols.

v. Desire to attract and retain investors

The same motivation that drives any other fraud scheme also frequently drives corporate fraud: greed. However, there are other possible causes in the modern world's fiercely competitive global business environment. Corporate fraud schemes frequently include fraudulent accounting practices in an effort to artificially increase a company's perceived profitability. The need—or the perception of the need—to entice and retain investors is what motivates these schemes.

vi. Defective Products of the Company

Another potential source of corporate fraud is problems with a company's products or defects that it attempts to hide. Pharmaceutical companies have been linked to several recent corporate fraud cases when they attempted to hide possible hazards or adverse effects from using their manufactured and marketed goods.

To try to prevent, detect, and punish corporate fraud, government regulatory bodies use laws and regulations, such as the Securities and Exchange Commission (SEC) in the United States.

VI. CASES

i. **The East India Company Fraud (1764)**

A trading company with a Crown chartered status was the East India Company. Although privately held, it was required to further the political and economic interests of the British State. The EIC was first and foremost a Crown agent.

It was the world's first multinational corporation to seek both territorial dominance and investment opportunities. Employees of the EIC stationed in India pursued financial gain for themselves, the Crown, and East India House while actively annexing Indian Territory on behalf of the Empire. Edmund Burke brought up impeachment charges involving corruption against India's governor general, Warren Hastings, and the empire's founder, Robert Clive, in the late 1700s, even though no one was found guilty during the trial⁶.

The corporate conduct of the EIC was inconsistent in order to accomplish all of these goals. The Company occasionally complied with moral standards regarding finances and safety. At other times, it was willing to violate human rights and civil liberties or engage in economic theft and bribery. Its interests came first and the notion of corporate social responsibility second. The company was subsequently closed down under East India Company Stock Redemption Act.

ii. **Mundhra Scam- First Scam of Independent India⁷ (1957)**

India's first independent financial scandal trial ended in victory.

The story begins in the early 1930s with the birth of a person named Haridas Mundhra in a modest businessman's home. When he first started his career, selling bulbs, things went really well. After that, he developed a money addiction and had a strong desire to make money, which made him appealing. He moved to Mumbai in the 1950s. When he got to Dalal Street, he saw how people with a few thousand or a few lakhs could make crores, so he went to work for

⁶ William Dalrymple, *The East India Company: The original corporate raiders*, The Guardian, (Mar 4, 2015), <https://www.theguardian.com/world/2015/mar/04/east-india-company-original-corporate-raiders>

⁷ *Independent India's First Big Financial Scam: Mundhra Scandal*, The Logical Indian, (Mar 19, 2016), <https://thelogicalindian.com/news/independent-indias-first-big-financial-scam-mundhra-scandal/>

himself as a rigger and jobber.

As a result of his excellent work, he began share rigging. In addition to manipulating shares, Haridas Mundhra was also floating fictitious shares. In 1957, Haridas had made four crore rupees. Later on, he bought six hot stocks, including the Angelo brothers' and British India Corporation. After that, he realized that he needed political support in order to advance in India. He was aware that in order to preserve sentiments, he would need to make significant investments, and LIC is the only institution better suited to make them than institutional investors. Using political influence, he convinced LIC to purchase these five or six shares.

In Parliament, the Rai Bareilly seat was brought up, raising the question of why anyone would invest in a failing company. At the time, there was a lot of commotion. However, on December 16, 1957, Firoz Gandhi used his investigative journalism to show through secret documents that Finance Minister T.T. Krishnamachari was involved in this. The finance minister was instructed to step down after Haridas Mundhra received a 22-year prison sentence. A little over 55 lakh investors in LIC lost money as a result of this scam.

iii. The Harshad Mehta Case⁸ (1992)

Many people refer to the 1992 stock market scam by the name of Harshad Shantilal Mehta, the perpetrator who was responsible for the stock market's collapse. The fraud comprised the embezzlement of Rs 1439 crores (\$3 billion), which led to a severe financial crisis and a precipitous drop in the value of life savings held by numerous investors, amounting to Rs 3542 crores (\$7 billion). Furthermore, Harshad Mehta is portrayed as a victim of alleged political connections to significant government figures. However, Mehta did manipulate the market, exploit legalities for his personal benefit, and contribute significantly to multiple bank frauds.

The primary instruments in the great scam were ready-forward transactions, bank receipts, stamp papers, and higher interest rates. Mehta's excessively lavish lifestyle piqued Sucheta Dalal's interest, and in 1992, she disclosed Mehta's transgressions and involvement in Times of India columns. The Harshad Mehta scam defrauded the banking system of almost Rs. 250 billion as of 2019. Even though they don't directly persist, the scam's effects continue to influence the attitudes of conservative investors. Mehta's associate Ketan Parekh was found guilty in 1992 of manipulating the stock market and would go on to resurrect a similar crime in the stock market in 2008.

⁸ Santosh Nair, *Scam 1992 Explained: How Harshad Mehta, brokers and banks gamed the system*, CNBC TV 18, (Mar 25, 2022), <https://www.cnbctv18.com/market/scam-1992-harshad-mehta-scam-explained-7417101.htm>

iv. The Ketan Parekh Scam⁹ (2001)

A CA, Ketan Parekh worked with the infamous Harshad Mehta. Ketan had a significant role in ITC. About 1998, Ketan began to consider his options and made the decision to manipulate ACC Cement, one or more counters, by getting involved in them. He began to feel uneasy due to Pokhran's nuclear tests and trades with the USSR.

Following this, Ketan's biggest breakthrough was that he was trying to boost the market with the help of multiple brokers, and Zee, HFCL, DSQ Software, Kadila Healthcare, ESSEL, Korpan, and Nirma were now some of his favorite stocks. So "why did Ketan want to work for IT/telecom companies?" now becomes a question. The reason for this is a 1995 report titled "The Age of Internet" from international media, which made the prediction that the Internet would eventually become the center of everything and cause a stir.

In January of the same year, Ketan purchases a stock with a daily volume of 1000 shares traded. By May of the same year, the stock's daily volume increased to 10-15 lakh shares. HFCL, a financially struggling company, quoted 700. Ranbaxy went from 270 to 1000, F-Tech from 45 to 2100, and the comparable pack was called K-10 stocks. To influence the Madhavpura Mercantile Cooperative Bank's decision to grant him a bank loan, Ketan Parekh bought a few shares of the bank. MNCB sent pay orders totaling 137 crores to Ketan Companies, but it lacked the funds to complete the payments.

RBI declared MNCB to be in default. Ketan Parekh inflated stock value with his "dump and pump" strategy. He invested in K-10 stocks and purchased 20-30% of the company's stock, which was well-known in the stock market. This inflated the share price, luring institutional investors to purchase shares.

v. The 2G Scam (2007)

The Central Bureau of Investigation (CBI) claimed in its April 2011 charge sheet against Raja and others that the government lost ₹30,984 crore due to the issuance of 122 2G spectrum licenses, which were later revoked by the Supreme Court on February 2, 2012.

The CBI claimed in its appeal that the 2G scam's 2017 acquittal ruling may have a significant effect on corruption cases throughout the nation. The Enforcement Directorate (ED) has asserted in its appeal regarding the 2G scam that this is a "classic case" of money laundering and that the special CBI judge misinterpreted the Prevention of Money Laundering Act

⁹ Cherian Varghese, *The Ketan Parekh Scam of 2001*, Market Feed, (Aug 2, 2023), <https://www.marketfeed.com/read/en/the-ketan-parekh-scam-of-2001>

(PMLA), 2002, in order to exonerate the accused¹⁰.

vi. The Satyam Scam¹¹ (2009)

In 1987, Ramalinga Raju and ten other engineers founded Satyam Computers. In 1988, he founded Maytas Infrastructure and drew in between 150 and 180 clients. Money does not come in this way, Ramalinga Raju realized as soon as Y2K's name and fame began to fade. In 2001, the listing was completed. Ramalinga Raju used the CA to incorporate 340 small businesses.

Through this, they used to transfer money, purchase Maytas' property, and open numerous fictitious accounts. The 2008 US Lehman Brothers Crisis was the root of the issue. As a result, there was a worldwide real estate depression. The land they were purchasing for \$30,000 per square foot has now been reduced to half that amount. Since Raju created the entire Management Information System (MIS) in Satyam, it was completely fabricated.

Infrastructure Companies experienced a downturn. Ramalinga intended for Satyam to surpass Mayta's building and infrastructure. He reasoned that doing so would close the gap. The lack of adherence to the shareholders' permission caused them great distress, leading them to reject the takeover. He attempted every strategy imaginable to prevent such harm, but ultimately he had to write a letter admitting to the scam. As of right now, Satyam Computers and Tech Mahindra have merged.

vii. The Sahara Scam¹² (2011)

Sahara Housing Investment Corporation Ltd (SHICL) and Sahara India Real Estate Corporation Ltd (SIREL) were two businesses within the Sahara Group. The capital markets regulator Sebi ordered them back in 2011 to return the money they had raised through bonds known as Optionally Fully Convertible Bonds (OFCDs) from nearly 3 crore investors.

The regulator discovered that the two companies had raised money outside of its guidelines, so it issued this order. After a lengthy series of appeals and cross-appeals, SEBI's orders directing the two companies to return investor funds plus 15% interest were upheld by the Supreme Court on August 31, 2012.

In order to continue repaying investors, Sahara was ultimately asked to deposit an estimated Rs

¹⁰ Neeraj Chauhan, *CBI has a strong case against 2G scam accused: Officials*, Hindustan Times, (May 24, 2023), <https://www.hindustantimes.com/india-news/cbi-argues-strong-evidence-ignored-in-2g-scam-acquittal-delhi-hc-to-hear-case-that-could-impact-corruption-cases-101684867469436.html>

¹¹ Aron Almeida, *Satyam Scam – The Story of India's Biggest Corporate Fraud!*, Trade Brains, (Nov 11, 2023), <https://tradebrains.in/satyam-scam/>

¹² Subrata Roy's Sahara scam: Where is Rs 25,000 crore submitted to Sebi and how to claim refund?, Business Today, (Nov 15, 2023), <https://www.businesstoday.in/latest/corporate/story/subrata-roys-sahara-scam-where-is-rs-25000-crore-submitted-to-sebi-and-how-to-claim-refund-405829-2023-11-15>

24,000 crore with SEBI; however, the business has maintained that it had already paid back more than 95% of investors directly. Meanwhile, the Center started the process in August of paying back Rs 5,000 crore to depositors whose funds disappeared from four cooperative societies in the Sahara Group.

viii. PNB Scam: the Nirav Modi Case¹³ (2018)

The fraudulent letter of undertaking that the Punjab National Bank issued, valued at Rs. 10,000 crore, is the subject of the scandal.

The primary defendants in the case were jewelry designer and jeweler Nirav Modi, his maternal uncle Mehul Choksi, and a few PNB employees. Nirav Modi and his family departed India in early 2018, days before the details of the scam were revealed. The PNB scam is the biggest fraud in Indian banking history.

Using a fake Letter of Understanding (LoU) from PNB, Nirav Modi secured a loan from a foreign bank with the assurance that he would repay it if he failed to make the payment. There were eight distinct fictitious and deceptive letters of understanding used. Between 2011 and 2017, loans totaling 11 crores of rupees were taken out. These foreign banks were actually expanded overseas branches of Indian banks. Upon receiving payment from these banks, PNB informed them that every single one of the Letters of Understanding was a fake. A fraud was committed, and the CBI was informed of the circumstances. The agreement's fictitious letters also implicated bank workers in this fraud. In this case, there were also two officials and their families involved.

ix. The PMC Crisis¹⁴ (2019)

On September 24, 2019, when the Reserve Bank of India (RBI) imposed six-month restrictions on the operations of the Mumbai-based bank, the crisis at PMC Bank was first revealed. The maximum amount that a customer could take out of their account over the course of the following six months was also restricted by the central bank, initially to Rs 1,000 and then to Rs 25,000.

When the HDIL Company neglected to pay 25 crore rupees, or thirty percent of the total amount borrowed, in March 2019, the PMC Crisis broke out. The bank disregarded the instructions from the RBI in 2017–18 to label these loans from the HDIL group as non-performing assets.

¹³ *Explainer: How Nirav Modi cheated PNB of Rs 14,000 crore through fraudulent LoUs*, The Economic Times, (Nov 9, 2022), <https://economictimes.indiatimes.com/news/india/explainer-how-nirav-modi-cheated-pnb-of-rs-14000-crore-through-fraudulent-lous/articleshow/95410291.cms>

¹⁴ Kanishka Gupta, *PMC Bank crisis: A complete explainer on the ongoing fiasco*, CNBC TV 18, (Sep 26, 2019), <https://www.cnbc18.com/finance/pmc-bank-crisis-a-complete-explainer-on-the-ongoing-fiasco-4427221.htm>

In August 2019, the Bank of India granted HDIL a new loan worth 96.5 crore rupees, following HDIL's repayment to NCLT. An executive director served on the HDIL board from 2009 to 2015; after selling all of his ownership stake (1.91%), he resigned and committed fraud. After that, HDIL received a loan from PMC, which it subsequently gave to the Reserve Bank of India. The RBI's rules were broken, so collateral was used to cover the entire 258 crore loan amount. The RBI held Rs 1,000 that could be taken back after six months because it involved public funds. But after further convincing, a Rs 10,000 withdrawal was approved.

VII. RECENT DEVELOPMENTS REGARDING CORPORATE FRAUD IN INDIA

SEBI amended the SEBI (LODR) Regulations, 2015 with effect from October 8, 2020, requiring listed businesses to notify stock exchanges of the following information in the event that a forensic audit is initiated¹⁵:

- The initiation of a forensic audit, the origin organization's identity, and any available explanations;
- Final forensic audit report, along with any management comments, upon receipt by the listed business (excluding those requested by regulatory or enforcement authorities).

VIII. CONCLUSION

From this research, it could be seen that corporate fraud or deceit has been a major issue in India with little to no solutions in hand. Most of the big “scams” were committed by finding loopholes in the system and then exploiting it. Now, if we come to the findings of the questions proposed in this article, we see that the existing regulations are still incapable of preventing crimes such as corporate frauds. According to "Platforms: The new frontier of fraud in India," the title of PwC's Global Economic Crime and Fraud Survey 2022: India Insights, second edition, platform fraud cost more than 26% of Indian organizations more than \$1 million, and 44% of the offenders were found to have committed fraud for monetary gain. Another reason for such data can be assumed to be the inappropriate distribution of powers within the company. That is, extreme power is given to a limited number of individuals which leaves no one to have checks and balances on them, ultimately leading to corruption.

Hence, it can be concluded that no *pre-stage prevention scheme* is implemented successfully in India. It is only after the fraud is committed on a big scale that it gets attention. And, even after becoming known, the offenders easily get away from it by flying to another country, or again

¹⁵ *Corporate Fraud in India & Outside India under Companies Act, 2013*, Legal Window, (Jan 5, 2023), <https://www.legalwindow.in/corporate-fraud-in-india/>

using their money as power to buy authorities.
