

AN INVESTIGATOR'S PERSPECTIVE

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Definition





• Shell Company:

- A company with no significant assets or ongoing / regular business activity
 - formed as a vehicle to raise funds before starting operations, or
 - to attempt a takeover,
 - ▼ or to act as a front for an illegal business, etc.
- Nicknamed as :
 - o 'Phantom Companies'
 - 'Anonymous Companies'
 - 'Ghost Companies'

Definition



(3)

Shelf Company:

- Ready made 'paper company' that has fulfilled all requirements for legal registration, and may be bought by anyone to bypass the lengthy registration or incorporation process
- Shelf companies are formed and sold usually by accounting or law firms
- Also called blank cheque company

Shell Companies: Random News



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- A Global Financial Integrity report found that shell companies are used to send over a \$1 trillion annually out of emerging economies
- Over 200,000 shell companies involved in Panama Papers leak
- In May 2016, authorities uncovered a fraud, wherein some individuals cheated the government and banks of several crores of rupees using a maze of 24 ghost companies operating from a single branch of a bank in Delhi
- SIT observed that investments from Cayman Islands, a tax haven, alone amount to Rs. 85,000 crore in India, highlighting the role of tax havens in money laundering

Shell Companies: Purposes



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- A shell company is not necessarily for illegal purpose.
- Various purposes :
 - Pre-operation financing / special purpose vehicle to raise funds, etc.
 - To conduct a hostile takeover
 - To act as a front / to disguise business ownership from the public or the business rivals or law enforcement
 - Tax Evasion / avoidance, including round-tripping through tax havens
 - To Launder money Black Money to White & vice versa
 - Accommodation Entries (Jamakharchi) for fraudulent activities

Purposes ... Contd





• Round tripping:

- Large remittances are sent overseas against fictitious imports /advances /commissions, etc.
- Later, funds are moved from overseas accounts to another set of shell companies.
- Funds are then repatriated through another bank account as receipts from exports or as share capital in listed and unlisted companies, etc.

Money Laundering :

- Black Money introduced in banking system (Placement) by showing large income from agriculture, agri-processing, small cash deposits, etc.
- Layering
- Integration

Shell Companies: Characteristics



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- Shell companies are hollow & do nothing but manage the money inside them
- Lawyers or accountants or dummies are listed as directors
- Difficult to figure out the ultimate beneficiaries
- 'Nominee' services people hired to allow their names on the registration forms, esp. in Tax Havens
- The forms for incorporation are often the only public proof of a shell company's existence - No phone number, physical address, company logo, contact person, etc.
- Beneficial owner the real people who ultimately own or control a company behind multiple layers
- Special categories : LLCs, Cells of a company, etc.

Creating a Shell Company





- Search for a name
- Submit papers required for incorporation of a company directly or through attorney or CA or third party agent
- The shareholders, directors, etc. can also be dummies or agents / nominees (Nominee officers/directors/shareholders/bank signatories)
- Open bank accounts, etc.

Detection of Frauds



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- Focus on significant transactions
- Trend Analysis
- Unusual debits/credits in accounts
- False credits, with corresponding debits, from/ to dummy accounts, etc.
- Ratio Analysis
- Abnormal numbers / data
- Historical Comparisons
- Investigator's Intuition & Common Sense



Shell Companies

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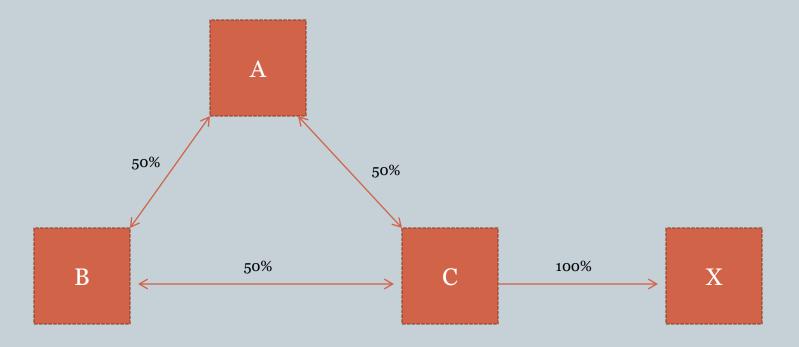
CASE STUDIES

Shell Companies: Case Study 1



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A shareholding structure is shown below:



• Who owns the company 'X' – A, B or C?

Case Study 1 ...2

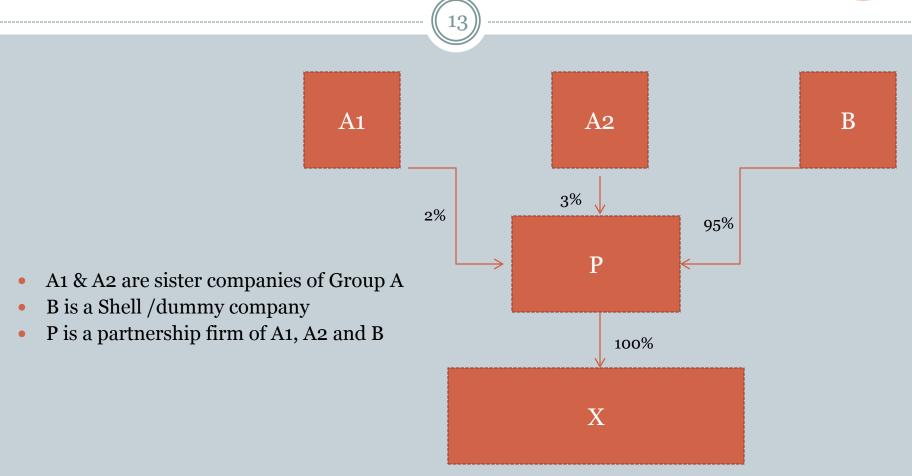




- This a Self Collapsing Structure or Inter Locking Structure
- Created to hide the obvious owners or create a corporate veil of Shell Companies for any fraudulent activity
- Significant Financial Transactions for creation of the structure, important business activities of target companies and the directorship of the shell companies are the keys to determine the ownership

Shell Companies: Case Study 2





Who controls 'X' – 'Group A' or 'B'?

Case Study 2 ...2





- This is another structure to conceal the actual ownership for fraudulent activities.
- Shell Company B appears to be the actual owner
- But the Firm P is a partnership between A1 & A2 on one side and B on the other.
- As per the Indian Partnership Act decisions in Partnership firms are to be taken by majority of partners irrespective of the investments made by partners (if not provided otherwise)
- Accordingly, the promoters of companies A1 and A2 control company X.

Case Study 3

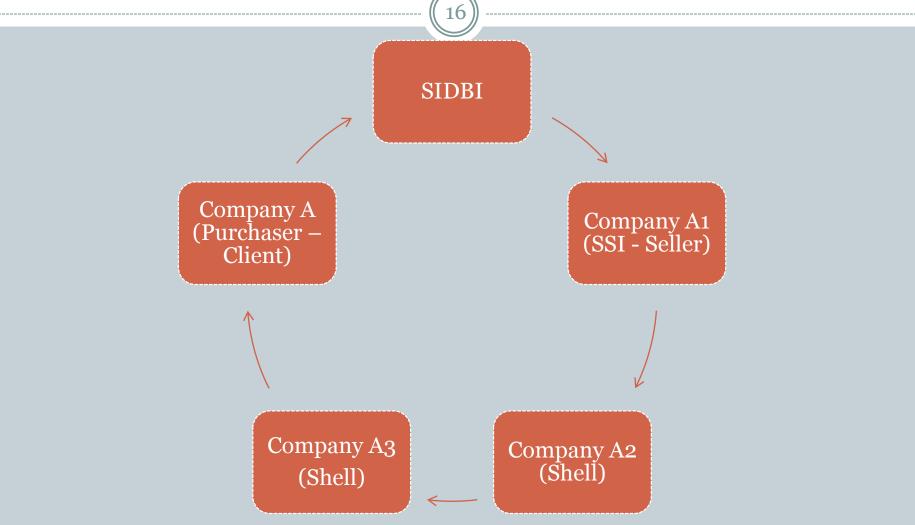




- SIDBI sanctions Bill Discounting Limits to a Large company for financing its SSI suppliers / sellers
- Scheme envisages Direct disbursements to SSI vendors
- Loan repayment to be made by the Large company (Purchaser / Client) to SIDBI within 90 days.
- Initial Limit of Rs. 1.5 Crores sanctioned to 'A'
- Limits increased every 80 to 90 days in 6 instances to Rs.
 25 Crores
- Repayments made by 'A' within 90 days
- No repayments thereafter and account declared NPA

Case Study 3 2





Case Study 3 3





- Investigation revealed that the funds were routed to 'A' immediately upon disbursement through Shell companies
- Total 180 such diversions / transactions revealed
- Investigations proved the certificates / balance sheets of SSI suppliers to be cooked up

Case Study 4: 2G Spectrum Case



A2 A3 C K

'A2': a partnership firm of 'A' Group of companies, A1 got Telecom License

'A3': A Shell Company of A Group of companies

'C': A company in the main stream business of Films

'K': Target company related to accused Telecom Minister's Party

2G Spectrum Case: Case Study 4 ...contd



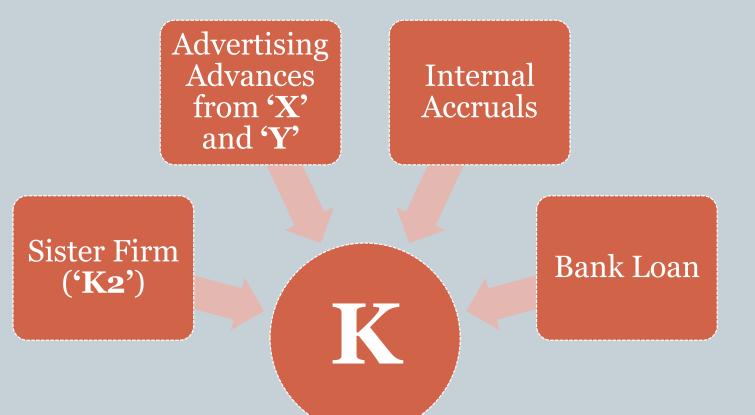
- Searches during December, 2009
- Interrogation of suspects during August 2010 to March 2011
- Follow up Searches of main accused December 2010
- 19th December, 2010 : Accused Minister called for questioning
- 24th December, 2010 : Accused Minister joins for questioning
- January 2011: Interrogation of the co-accused persons and investigation into suspicious transactions
- 20th January, 2011 onwards: Accused Minister again asked to join investigation
- 2nd February 2011: Accused Minister arrested

2G Spectrum Case: Bribe returned

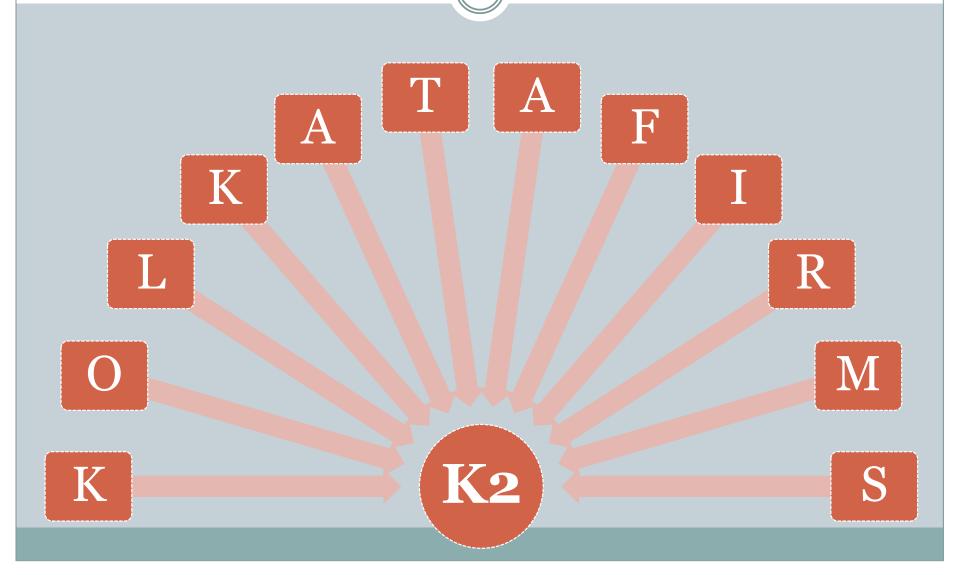


A2 (A3 (C (K

Sources of Money for return



Sources of Money for 'K2': Shell Companies of Kolkata



Confirmation order of attachment

 ".....the intermediary companies, i.e. 'A3' and 'C' had no business need of their own is clear from the fact that they transferred the amounts almost instantaneously after receipt, that 'A3' and 'C' perhaps could be aptly described as conveyor belt companies, that a company does borrow only to transmit money to other companies almost immediately, loans jumping from one hand to another like hot potato, that there are instances to show that on a single day money has travelled with lightening speed from 'A2' to 'K', travelling through 'A3' and 'C', that it is clear that ultimate destination was predetermined, that need for passing the money through two other companies was only to give it a different colour, a part of the strategy of layering. Further such huge amount of so called loan was given without any collaterals or security which does not conform to business prudence, that 'A2' borrowed money at a higher rate of interest, that too mortgaging big chunks of their land to loan it out at a lower rate of interest.....

Shell Companies: Misc. Case Studies





Concealing Bribes in a company:

- Company 'X' was promoted by wife of accused but had many small shareholders
 - ★ All such share money was received in small amounts in cash, which created suspicion
 - ➤ Investigation revealed all these investors to be fake / dummies
- A Corrupt public servant has benefitted company X, which in turn transfers bribes to a company Y, related to the public servant's wife, in form of shareholding capital at unduly high premium
 - Contradictions in the due diligence transactions
 - The shares are issued by Y at a premium to X, while other shareholders got the shares of Y at face value.



Mannes

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