

The Role Of Sfo In Combating Corporate Frauds In India: A Critical Analysis - With Brief Insights Into Green-Washing Practices

Botta Bhavya^{1*}, Prof. Dr. D. Surya Prakasa Rao²

^{1*}Research Scholar, Dr. B.R. Ambedkar College of Law, Andhra University, Visakhapatnam - 530003, Andhra Pradesh, India.

²Vice-Chancellor, Damodaram Sanjivayya National Law University (DSNLU), Sabbavaram, Visakhapatnam - 531035, Andhra Pradesh, India.

*Corresponding Author: Botta Bhavya

*Research Scholar, Dr. B.R. Ambedkar College of Law, Andhra University, Visakhapatnam - 530003, Andhra Pradesh, India. Email Id – bhavya.botta@gmail.com

ABSTRACT

Corporate fraud in India has emerged as serious economic and governance challenge. These frauds, often executed by sophisticated actors in leadership positions, have compromised transparency, shaken investor confidence, and tarnished country's global image. The emergence of the large-scale scandals like Satyam Computers scam (2009), Punjab National Bank fraud (2018), and ABG Shipyard case demonstrate clear need for stronger oversight. In response to such failures, Indian legislature brought Serious Fraud Investigation Office (SFIO) into statutory existence under Companies Act, 2013. This research critically analyses statutory powers, functioning, and systemic limitations of the SFIO. The study draws upon statutory provisions, landmark case laws, and empirical evidence to assess whether SFIO has fulfilled its legislative promise. The paper further identifies lacunae in enforcement and recommends structural reforms to improve India's corporate fraud enforcement architecture. It also briefly highlights emerging forms of corporate deception such as Green washing, which demand evolving regulatory responses.

Keywords: Corporate Fraud, White Collar Crime, Companies Act 2013, SFIO, Forensic Investigation, Satyam Scam, Corporate Governance, Regulatory Enforcement, Greenwashing, Environmental Misrepresentation.

1. INTRODUCTION

Definition and Significance of the Corporate Fraud in India

Corporate fraud in India refers to deceptive practices committed in name or by structure of the company. These acts result in wrongful gains and cause unlawful losses to stakeholders. The Companies Act, 2013 for first time codified definition under Section 447. It reads—"Fraud in relation to affairs of the company or anybody corporate includes any act, omission, concealment of the any fact or abuse of the position committed by any person or any other person with connivance, with intent to deceive or to gain undue advantage"¹. This definition widens scope to include intentional deception even when there is no actual financial loss.

Such frauds have immense economic consequences. According to RBI data, Indian banks reported frauds worth ₹1.38 trillion in 2022–23 alone, primarily due to misrepresentation and embezzlement by corporate borrowers². Beyond financial loss, corporate fraud erodes public trust in institutions, discourages foreign investment, and contributes to systemic instability. The Satyam Computers scandal alone wiped out over ₹14,000 crore in investor wealth and became India's Enron moment³.

¹ Companies Act, 2013, § 447, No. 18, Acts of the Parliament, 2013 (India).

² Reserve Bank of the India, Annual Report on Frauds in Banking Sector, <https://rbi.org.in> (last visited Apr. 9, 2025).

³ Satyam Computer Services Ltd. v. Union of the India, (2010) 6 SCC 1.

Evolution and Typology of the White-Collar Crimes

White Collar Crimes are committed by educated, privileged and respectable persons holding high positions, who wilfully circumvent the laws. Any offence against any statutory provision in order to get undue advantage is a white collar crime. Previously only individuals used to indulge in such crimes. Now, focus of white collar crimes has moved from individuals to organizations. Where individuals in collusion with others commit such criminal acts. One such white-collar crime is the Corporate Fraud. It is very difficult to detect such frauds as they are carried out in-house with collusion and secrecy.

The concept of the white-collar crime was introduced by Edwin Sutherland in 1939, and in Indian context, it evolved through colonial period into present era of the globalized capitalism⁴. Earlier, frauds were limited to embezzlement or land-grabbing by government officers, but now they include high-profile scams such as insider trading, tax evasion, accounting fraud, money laundering, Ponzi schemes, and cyber-fraud. White-collar crimes in India often involve senior executives or directors exploiting legal loopholes. For instance, in IL&FS case, top leadership misrepresented financial statements over years, resulting in default of the over ₹91,000 crore⁵. Similarly, Kingfisher Airlines and Vijay Mallya episode involved bank loan default and fund diversion of the around ₹9,000 crore. The common features in all these cases are abuse of the fiduciary position, manipulation of the accounts, and layering of the ownership to hide beneficial interest. These activities operate within grey zones of the legality, requiring sophisticated detection mechanisms beyond conventional policing.

The Necessity of a Specialized Agency for Combating Corporate Fraud

Late 90's has seen some major failures of Non-Banking Financial Companies (NBFCs), the phenomenon of vanishing companies and plantation companies. Vanishing companies are those firms which cease to file their statements of return after raising capital and whereabouts of their registered office or directors are not known. Plantation companies are those firms who raise money and invest in agriculture and related activities. They are not under the regulatory ambit of RBI, since they are not non-banking finance companies, not under MCA, since the money raised do not come under the definition of deposits or SEBI and since the money raised is not invested in securities. The 2001 Stock Market Scam had led to a meltdown in the securities market and resulted in huge financial losses to the public. Joint Parliamentary Committee (JPC) that was set up to enquire into the Stock Market Scam of 2001 recommended establishment of the "Serious Fraud Investigation Office" (SFIO). The 2001 Stock Market Scam also raised significant questions on corporate governance. Naresh Chandra Committee on Corporate Governance was set up to examine various corporate governance issues. It has also recommended establishment of SFIO. In view of these developments, it was announced in Parliament on 30th July, 2002 that the "Serious Fraud Office" would be established. The Central Government issued a resolution on 2nd July, 2003 constituting the SFIO. Charter of SFIO was issued on 21st of August, 2003 which stated the responsibilities and functions of the SFIO. SFIO became functional on 01.10.2003. It attained statutory status under Companies Act, 2013.

The inadequacy of the traditional law enforcement to address complex financial crimes necessitated formation of the dedicated agency. The Naresh Chandra Committee in 2002 emphasized that corporate fraud involves multidisciplinary expertise and recommended centralized body with investigative and prosecutorial powers⁶. Based on its recommendation, Serious Fraud Investigation Office (SFIO) was constituted in 2003 via government resolution. However, its early years lacked statutory powers. It functioned only as fact-finding body. The scenario changed with enactment of the Companies Act, 2013, wherein Sections 211 and 212 provided legal sanctity, empowered it to arrest, and allowed it to override parallel investigations by other agencies⁷. The complexity of the corporate fraud lies in its multifaceted nature. It requires forensic accountants, cyber experts, legal analysts, and capital market specialists. SFIO's multidisciplinary structure helps bridge this gap. The office includes officers

⁴ Edwin H. Sutherland, *White Collar Crime* (Dryden Press 1949).

⁵ Ministry of the Corporate Affairs, IL&FS Case Update, <https://mca.gov.in> (last visited Apr. 9, 2025).

⁶ Naresh Chandra Committee Report on Corporate Audit and Governance (2002), Ministry of the Finance, Government of the India.

⁷ Companies Act, 2013, §§ 211–212, No. 18, Acts of the Parliament, 2013 (India).

from Indian Revenue Service, Indian Audit & Accounts Service, CA, CS, and IT domains, making it uniquely positioned to decode high-stakes scams.

Introduction to SFIO: Concept and Legal Recognition under Companies Act, 2013

SFIO is headed by a Director who is an officer not below the rank of Joint Secretary to the Government of India. The Director is the Head of the Department for all financial and administrative purposes. The Head Office is situated at New Delhi. SFIO is organized into Investigation Units, Functional Units and specialised units. The investigation units look after the investigation of various fraud cases. In order to carry out multi-disciplinary investigations, the Functional Units comprise officers specialising in Corporate Law, Financial Transactions/Banking, Forensic Audit and Capital Markets. Specialized Units such as **Market Research and Analysis Unit** collect, collate, classify and analyse the information collected from various sources and share the information in actionable form. **Corporate Forensic and Data Mining Laboratory** assist the Investigation Units of SFIO in analysing digital data of the companies under investigation; Legal and Prosecution Division; Information Technology Division; and Administration and Policy Division. Regional Offices of SFIO are located at Delhi, Mumbai, Chennai, Hyderabad and Kolkata. The Regional Offices are headed by Additional Directors/Joint Directors. Each Unit comprises officers of the rank of Deputy Director, Senior Assistant Director and Assistant Director and other support staff.

The Companies Act, 2013 formalized SFIO's statutory mandate. Section 211 establishes office, while Section 212 outlines its investigative powers. It allows Central Government to assign cases where complexity, public interest, or inter-departmental overlap justifies central investigation. Importantly, once SFIO takes charge, no other agency can continue parallel investigations into same matter⁸. In landmark case *SFIO v. Rahul Modi*, (2019) 5 SCC 266, Supreme Court upheld power of the SFIO to investigate beyond time limit prescribed in government's order, confirming its jurisdiction until final report is submitted⁹. Further, in *N. Sampath Ganesh v. Union of the India*, (2020) 222 CompCas 676 (Bom), Bombay High Court held that SFIO can initiate prosecution even on basis of the interim report if it suffices for framing charges¹⁰. These judicial validations reinforce office's vital role in corporate law enforcement ecosystem.

To investigate the corporate frauds SFIO has been established. Investigations are assigned to SFIO by Central Government through Ministry of Corporate Affairs. The Central Government, normally considers the cases:

- (a) where the amount involved is significantly large that is at least Rs. 50 crore or more;
- (b) where the persons affected are significant in number, at least more than five thousand persons;
- (c) where the modus operandi is of a complex nature requiring multi-disciplinary approach;
- (d) where a case has greatly dented public confidence, which needs to be restored.

The SFIO will only take up for investigations of frauds characterized by-

- (i) complexity and having inter-departmental and multi-disciplinary ramifications;
- (ii) substantial involvement of public interest in terms of monetary misappropriation or in terms of the persons affected; and
- (iii) possibility of investigation contributing towards a clear improvement in systems, laws or procedures.

SFIO also takes up cases on its own with the approval of Director. The investigations are done under the provisions of the Companies Act 2013 and LLP Act. After completion of investigation, investigation reports are forwarded to Central Government to decide on the prosecution.

DEFINING FRAUD

In the broadest sense, a fraud is a planned trickery made for personal gain or to damage another person. Corporate fraud takes place when a company purposefully provides dishonest information, deliberately changes or conceals sensitive information with the intent to gain an advantage. This is done by mis-information in the

⁸ Companies Act, 2013, § 212(2), No. 18, Acts of the Parliament, 2013 (India).

⁹ *SFIO v. Rahul Modi*, (2019) 5 SCC 266.

¹⁰ *N. Sampath Ganesh v. Union of the India*, (2020) 222 CompCas 676 (Bom).

prospectus, manipulation of accounting records, debt hiding etc. Falsification of financial information includes false accounting entries, false trades, disclosure of price sensitive information and showing false transactions which result in attracting more investors and lenders for funding.

There are many types of frauds. Some of the common types of frauds are:

- **Financial frauds** - Manipulation, falsification, alteration of accounting records, misrepresentation or intentional omission of amounts, misapplication of accounting principles, intentionally false, misleading or omitted disclosures.
- **Misappropriation of Assets** - Theft of tangible assets by internal or external parties, sale of proprietary information, causing improper payments.
- **Corruption** - making or receiving improper payments, offering bribes to public or private officials, receiving bribes, kickbacks or other payments, aiding and abetting fraud by others.

The Companies Act, 2013, and LLP Act are the legislations which focuses on issues related to corporate frauds. Fraud in relation to affairs of a company or any corporate body as defined in S.447 of the Companies Act 2013, includes any act, omission, concealment of any fact or abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from, or to injure the interests of the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss.

Expanding Dimensions of Corporate Fraud – GREEN WASHING –

In recent years, corporate fraud in India has extended beyond traditional financial misconduct to include deceptive environmental practices, often termed as environmental corporate frauds. Among the most prominent is **greenwashing**—where companies mislead stakeholders by falsely portraying their operations or products as environmentally sustainable. These practices not only erode public trust but also undermine genuine environmental compliance and policy objectives. While environmental regulation in India is primarily enforced by bodies such as the Central Pollution Control Board (CPCB) and the Ministry of Environment, Forest and Climate Change (MoEFCC), financial and corporate dimensions of such frauds increasingly fall within the scope of corporate governance. In this evolving landscape, the Serious Fraud Investigation Office (SFIO - though traditionally tasked with probing complex financial frauds—may be required to expand its mandate to include cases where environmental misrepresentation intersects with corporate fraud, investor deception, or unlawful financial gain. This raises important questions about the adequacy of India's current regulatory architecture in addressing such hybrid forms of misconduct.

FORMS OF GREEN-WASHING

1. Vague or Misleading Language

Using terms like “eco-friendly,” “natural,” or “sustainable” without clear definition or certification.

2. Irrelevant Claims

Highlighting a single environmentally positive feature while ignoring significant negative environmental impacts elsewhere in the product or process.

3. Lack of Proof

Making environmental claims without third-party verification or scientific evidence.

4. Hidden Trade-Offs

Emphasizing one “green” aspect (e.g., recyclable packaging) while obscuring a larger harmful impact (e.g., high carbon footprint).

PROMINENT EXAMPLES OF GREEN-WASHING

- **Volkswagen (Diesel gate):** Claimed its diesel cars were low-emission, while cheating on emission tests using defeat devices.
- **Fast Fashion Brands:** Many promote limited “sustainable” collections while continuing mass production under polluting practices.

- **Oil Companies:** Promoting investments in renewable energy while the vast majority of their portfolio remains in fossil fuels.

CONSEQUENCES OF GREEN- WASHING

- **Consumer Deception:** Misleads environmentally conscious buyers into supporting unsustainable companies.
- **Market Distortion:** Unfairly disadvantages genuinely sustainable businesses.
- **Regulatory Evasion:** Undermines environmental regulation by creating a false impression of compliance.
- **Erosion of Public Trust:** Damages credibility of environmental claims and CSR efforts across industries.

Preventive Measures

- **Strict Regulatory Oversight:** Government must enforce transparency in environmental claims through consumer protection laws and standards (e.g., ISO 14024).
- **Third-Party Certification:** Encouraging verifiable eco-labels such as Energy Star, FSC, or Global Organic Textile Standard (GOTS).
- **Public Awareness:** Educating consumers to critically evaluate green claims and demand accountability.
- **Corporate Accountability:** Companies must adopt comprehensive sustainability audits and reporting frameworks like GRI (Global Reporting Initiative) and ESG (Environmental, Social, Governance) metrics.

Greenwashing is a serious environmental corporate fraud that undermines global efforts toward sustainability. While companies must be encouraged to transition to greener operations, transparency, accountability, and ethical marketing are crucial to ensure that environmental responsibility is not just a façade but a fundamental business value.

RESEARCH PROBLEM

Despite enhanced statutory powers, SFIO has often failed to ensure timely prosecution and recovery in major frauds. Delays in investigation, lack of the co-ordination with other regulators, and poor conviction rates continue to plague system. Questions are frequently raised about whether SFIO is structurally and legally equipped to handle corporate crimes that now transcend jurisdictions and use advanced digital methods. There are also challenges of the jurisdictional overlap with other agencies like SEBI, Enforcement Directorate, and CBI. While SFIO is empowered under Companies Act, coordination in cross-border or securities-related frauds becomes increasingly complex. The lack of the technological investment in AI-based forensic tools and absence of the whistleblower support mechanisms further dilute its effectiveness. Apart from these technical and structural concerns, emerging environmental malpractices such as greenwashing represent a new frontier in corporate fraud, which current regulatory mechanisms, including the SFIO, are yet to effectively address.

RESEARCH OBJECTIVES

The researcher has formulated following research objectives:

1. To examine statutory framework under Companies Act, 2013 concerning SFIO's role.
2. To critically analyze SFIO's performance in investigating and prosecuting corporate frauds.
3. To evaluate effectiveness of the SFIO's powers in context of the high-profile case studies.
4. To explore comparative models like UK's Serious Fraud Office and US's SEC and assess their relevance in India.
5. To suggest reforms and policy enhancements for strengthening India's corporate fraud enforcement regime.
6. To identify the regulatory challenges in addressing environmental frauds such as greenwashing and assess the potential role of SFIO in tackling them.

RESEARCH QUESTIONS

The researcher has formulated following research questions:

1. Is SFIO equipped to investigate increasingly complex nature of the corporate fraud in India?
2. What are major bottlenecks faced by SFIO in investigation, prosecution, and recovery?
3. How effective is inter-agency coordination between SFIO and other regulatory/enforcement bodies?

4. How do global models of the specialized financial crime investigation offices differ from India's SFIO?
5. What legislative, procedural, or infrastructural reforms can improve SFIO's functioning?
6. Can SFIO play a meaningful role in addressing corporate environmental frauds such as greenwashing within its existing legal and institutional framework?

RESEARCH METHODOLOGY

The research is doctrinal in nature and draws upon secondary sources such as: Reports published by Ministry of the Corporate Affairs, RBI, and SFIO; Case laws decided by Supreme Court and various High Courts; Statutory analysis of the Companies Act, 2013 and allied legislation like PMLA, SEBI Act; Academic journals, articles, whitepapers, and policy papers; News sources and audit reports by CAG and Parliamentary Standing Committees. To ensure comprehensiveness, study also adopts comparative approach by evaluating enforcement models in UK, USA, and Singapore. In addition, key case studies like Satyam, PNB, IL&FS, and ABG Shipyard are critically assessed to determine regulatory gaps. Furthermore, the research briefly explores environmental corporate frauds such as greenwashing by referencing emerging jurisprudence, global ESG enforcement trends, and policy debates on integrating environmental misrepresentation into corporate fraud regulation.

2. CORPORATE FRAUD IN INDIA: NATURE, CAUSES AND IMPACT

Types of the Corporate Fraud in India

Corporate fraud in India appears in multiple forms. Among most common is accounting fraud, where companies deliberately misrepresent financial data. Satyam Computers is most glaring example. Ramalinga Raju inflated firm's balance sheet by ₹7,136 crore using fictitious assets, bank statements, and accounts. He falsely boosted revenues by issuing non-existent invoices and forged documents, deceiving shareholders and regulators alike. The manipulation went undetected for years due to collusion between auditors and management, showing how accounting fraud can conceal vast financial misconduct¹¹. Another serious form is insider trading. This occurs when directors or key managerial personnel use unpublished price-sensitive information to trade securities. Insider trading gives unfair advantage and distorts market integrity. The Securities and Exchange Board of India (SEBI) has prosecuted several such violations under SEBI (Prohibition of the Insider Trading) Regulations, 2015, but enforcement gaps remain¹².

Embezzlement or misappropriation of the funds is also rampant. In Kingfisher Airlines case, Vijay Mallya diverted public money for personal luxury, using loans sanctioned for airline's operations to fund unrelated ventures and properties. He later fled country after defaulting on over ₹9,000 crore of the bank loans. This case highlighted how unchecked access to corporate finances can enable large-scale theft¹³. Ponzi schemes, such as Saradha Chit Fund scam, prey on economically weaker groups by promising high returns through false investment models. These schemes often collapse when new investor money dries up, leaving lakhs of the families financially devastated¹⁴.

Money laundering through shell companies has become tool to clean illicit funds. In PNB–Nirav Modi scam, fraudulent Letters of the Undertaking (LoUs) were issued by bank officials without proper collateral. These allowed Nirav Modi to secure credit from overseas branches without scrutiny. The fraud ran into ₹11,400 crore and revealed how laundered funds can cross borders without trace when internal checks are missing¹⁵.

Causes: Systemic Loopholes and Regulatory Gaps

Most corporate frauds in India originate from weak internal control mechanisms. Boards often function as rubber stamps, failing to question suspicious financial practices. In IL&FS, directors ignored warning signs while

¹¹ M.L. Bhasin, Corporate Accounting Fraud: A Case Study of the Satyam Computers Limited, 3(2) Int'l J. Corp. Fin. & Acct. 1–23 (2016).

¹² SEBI, Prohibition of the Insider Trading Regulations, 2015, <https://www.sebi.gov.in> (last visited Apr. 9, 2025).

¹³ A. Kolte, A. Capasso & M. Rossi, Critical Analysis of the Failure of the Kingfisher Airlines, 10(4) Int'l J. Managerial & Fin. Acct. 391 (2018).

¹⁴ Ministry of the Corporate Affairs, Saradha Chit Fund Scam Report (2015), <https://www.mca.gov.in> (last visited Apr. 9, 2025).

¹⁵ M.N. Roy, The Punjab National Bank Scam: Ethics versus Robust Processes, 19(4) J. Public Aff. (2019).

liabilities were masked under aggressive asset declarations. This failure in governance permitted concealment of the ₹90,000 crore in defaults¹⁶. Collusion between auditors and management is another major cause. The Price Waterhouse firm, which audited Satyam, signed off on fraudulent reports despite glaring irregularities. Section 143 of the Companies Act, 2013 assigns duty to report fraud to auditors, but enforcement remains weak. The complicity or negligence of the auditors can prolong fraud schemes, as shown by their role in both Satyam and IL&FS¹⁷.

Regulatory overlap and unclear jurisdiction among SFIO, CBI, ED, and SEBI slow enforcement. Agencies often hesitate to share data due to turf battles. This leads to prolonged trials, procedural delays, and poor conviction rates. Even with dedicated legislation under Sections 211–212 of the Companies Act, SFIO lacks sufficient staff and funding to investigate all major cases effectively¹⁸. Outdated IT infrastructure and manual documentation further enable manipulation. Modern financial crimes use digital footprints, cryptocurrency, and complex layering, but enforcement agencies still depend on conventional forensic tools. Without predictive AI or blockchain-based systems, regulators cannot keep pace with evolving fraud strategies¹⁹.

Impact on Stakeholders and Indian Economy

Corporate fraud directly harms investors, who suffer losses due to false valuations and share manipulation. In Satyam scam, investors lost over ₹14,000 crores within days of the revelation, shaking confidence in India's IT sector globally. Similarly, fraud in ABG Shipyard led to ₹22,842 crores of the non-performing assets (NPAs), affecting multiple banking institutions²⁰. Banks and creditors are severely impacted when borrowers default due to fund diversion. The ABG Shipyard scam affected 28 banks, including ICICI Bank and State Bank of India. Lenders had to write off massive losses, affecting liquidity and public trust. These losses are eventually passed on to common citizen in form of the higher interest rates or reduced access to credit²¹.

Employees also face brunt. Companies caught in fraud scandals undergo liquidation or restructuring, leading to job losses. At IL&FS, over 2,000 employees faced uncertainty during crisis. In Kingfisher Airlines, over 4,000 employees were left unpaid when company was grounded after fund diversion charges surfaced²². The broader economy suffers through reduced investor sentiment and capital flight. International rating agencies downgrade Indian companies and financial institutions when scandals erupt. The PNB scam led to sharp drop in rupee and foreign outflows from equity markets. It prompted RBI to overhaul its norms on LoUs and bank guarantees²³.

CASE STUDIES : DEFINING CORPORATE FRAUDS IN INDIA

1. In *Satyam Computer Services Ltd. v. Union of the India*, (2010) 6 SCC 1, apex court observed lack of the vigilance by regulatory authorities and emphasized importance of the proactive enforcement to prevent similar occurrences. The fraud, orchestrated by inflating assets and profits over several years, shook investor trust and prompted reforms in accounting oversight²⁴.

¹⁶ Ministry of the Corporate Affairs, IL&FS Fraud Investigation Summary (2021), <https://www.mca.gov.in> (last visited Apr. 9, 2025).

¹⁷ Prabhat Kumar & Shruti Gupta, Corporate Frauds in India – Perceptions and Emerging Issues, 22(1) J. Fin. Crime 79 (2015).

¹⁸ Desai, V., Resource Constraints in Regulatory Agencies: A Study of the SFIO and NFRA, 15(4) J. Reg. Compliance 89–102 (2021).

¹⁹ Ojha, D. & Jain, P., Impact of the Fraud on Indian Banking Sector, 4(2) Int'l J. Advanced Res. Commerce Mgmt. & Soc. Sci. 181–184 (2021).

²⁰ M.L. Bhasin, Corporate Accounting Fraud: A Case Study of the Satyam Computers Limited, 3(2) Int'l J. Corp. Fin. & Acct. 1–23 (2016).

²¹ Dr. Satish Kumar, Critical Examination of the Working of the SFIO and NFRA in India, 21(2) Res. J. ARTS 67–80 (2022).

²² A. Kolte, A. Capasso & M. Rossi, Critical Analysis of the Failure of the Kingfisher Airlines, 10(4) Int'l J. Managerial & Fin. Acct. 391 (2018).

²³ RBI, Revised Framework on Letters of the Undertaking Post PNB Scam, <https://www.rbi.org.in> (last visited Apr. 9, 2025).

²⁴ M.L. Bhasin, Corporate Accounting Fraud: A Case Study of the Satyam Computers Limited, 3(2) Int'l J. Corp. Fin. & Acct. 1–23 (2016).

2. The *Punjab National Bank v. Nirav Modi* case exposed institutional weaknesses. Letters of the Undertaking were issued without core banking system entries. The absence of the real-time checks enabled fraud to persist for years. Enforcement Directorate seized assets worth ₹1,300 crore under PMLA. The case led to global embarrassment as Nirav Modi was arrested in UK and faced extradition proceedings ²⁵.
3. The *ABG Shipyard Ltd. case*, with fraud involving ₹22,842 crore, became one of the India's biggest bank frauds. SFIO was tasked to investigate after forensic audits revealed falsified data and fund diversion. The scam illustrated scale of the manipulation possible with long-standing collusion between officials and promoters. The case is still under trial, highlighting SFIO's slow pace of the investigation due to manpower and structural limitations ²⁶.

3. THE LEGAL FRAMEWORK OF SFIO IN INDIA

3.1. Genesis and Institutional Framework

The Serious Fraud Investigation Office (SFIO) was born out of the need for specialised investigative agency capable of the tackling complex white-collar crimes. In 2002, in response to large-scale financial scams including securities market frauds and collapse of the non-banking financial companies, Naresh Chandra Committee on Corporate Audit and Governance was constituted. It emphatically recommended creation of the multi-disciplinary body to investigate corporate frauds in India ²⁷. Acting on this, Cabinet approved creation of the SFIO in January 2003. The Government Resolution dated 2nd July 2003 officially established SFIO, though at time it operated without statutory recognition and was empowered only through sections 235 to 247 of the Companies Act, 1956 ²⁸. Initially, SFIO's jurisdiction overlapped with that of the Registrar of the Companies (RoC), which often led to conflicts and inefficiencies ²⁹.

This situation changed with enactment of the Companies Act, 2013, which finally granted SFIO statutory status under Sections 211 and 212. This codified its powers, enhanced its jurisdiction, and resolved administrative overlaps, giving SFIO primacy in investigating serious corporate frauds involving multi-layered transactions and significant public interest ³⁰. The legislative framework was further strengthened in 2017 when Companies (Arrests in connection with Investigation by Serious Fraud Investigation Office) Rules, 2017 were introduced. These rules for first time formally empowered SFIO officers to make arrests in connection with investigations, aligning India's approach with international standards such as UK's Serious Fraud Office and U.S. Corporate Fraud Task Force ³¹.

3.2. Statutory Provisions under Companies Act, 2013

Section 211 of the Companies Act, 2013 lays down statutory foundation for SFIO. It specifies that SFIO shall be established by Central Government and will consist of the experts in law, investigation, banking, accountancy, capital markets, and other relevant fields. This multidisciplinary nature is crucial for deciphering layered fraud schemes involving cross-border money flows and complex corporate structures. Section 212 is core provision that outlines SFIO's investigation powers. It authorizes Central Government to assign cases for investigation upon:

1. A report by RoC or inspector under Section 208
2. A special resolution passed by company
3. Public interest

²⁵ M.N. Roy, *The Punjab National Bank Scam: Ethics versus Robust Processes*, 19(4) J. Public Aff. (2019).

²⁶ Dr. Satish Kumar, *Critical Examination of the Working of the SFIO and NFRA in India*, 21(2) Res. J. ARTS 67–80 (2022).

²⁷ Naresh Chandra Committee, *Report on Corporate Audit and Governance* (2002).

²⁸ Government of the India, Resolution No. 45011/16/2003-Admn-I, dated 2nd July 2003.

²⁹ Shruti Kulshreshtha, 'Critical Appraisal of the Corporate Fraud Regulation in India' (2019) 5 Pen Acclaims 6, 8–9.

³⁰ Companies Act, 2013, ss 211–212.

³¹ Companies (Arrests in connection with Investigation by Serious Fraud Investigation Office) Rules, 2017, notified on 24 August 2017.

4. A request from any government department ³²

Sub-sections (3) to (12) of the Section 212 lay out procedures for investigation, report submission, and prosecution. Sub-section (6) introduces stringent bail conditions for offences committed under Section 447 (fraud), making them cognizable and non-bailable, subject to judicial scrutiny similar to provisions under PMLA and CrPC ³³.

Section 447 defines “fraud” in broad terms, covering any act of the deceit or misrepresentation with intent to gain undue advantage. It prescribes rigorous imprisonment for up to ten years and fine up to three times amount involved. If fraud involves public interest, minimum imprisonment of the three years is mandatory. SFIO prosecutions often rely on this provision due to its wide scope and harsh penalties ³⁴.

The Companies (Arrests in connection with Investigation by Serious Fraud Investigation Office) Rules, 2017 provide detailed procedures for arrests. Only Director, Additional Director or Assistant Director of the SFIO is authorised to arrest, and arrests must be backed by documented “reasons to believe.” In case of the arrest by subordinate officers, prior approval of the Director is mandatory. Foreign and Government companies require Central Government’s written consent for arrest of the their officers ³⁵. The Supreme Court in *SFIO v. Rahul Modi*, *Criminal Appeal Nos.185-186 of the 2022*, clarified that Section 212 does not prescribe strict timeline for submission of the investigation report. Hence, SFIO retains jurisdiction beyond time limit specified in Government’s order if needed to ensure complete investigation ³⁶.

Also, under Section 212(14A), based on SFIO report, Central Government may initiate disgorgement proceedings before Tribunal to recover assets from those liable for corporate frauds. This provision empowers SFIO’s findings to form basis for both penal and civil recovery proceedings, including claw-back actions against promoters, directors, and KMPs ³⁷. In *Church of the South India Trust Association v. Union of the India*, Madras HC emphasized that SFIO investigations can be ordered only when Central Government forms independent opinion on necessity. This ensures that SFIO’s mandate is invoked only in appropriate cases and avoids abuse of the power ³⁸.

3.3. SFIO’s Organizational Structure and Functions

The Serious Fraud Investigation Office (SFIO) operates under Ministry of the Corporate Affairs and functions as multi-disciplinary agency. It includes professionals from diverse fields—law, banking, forensic accounting, information technology, taxation, and corporate governance. This diversity is essential to decode complex structure of the modern white-collar crimes. The Investigation Unit (IU) is core operational division. It handles assigned investigations, develops plans for evidence collection, gathers data from company filings, financial institutions, and regulatory bodies, and coordinates with external agencies like CBI, SEBI, and RBI. The IU prepares factually vetted findings, which form base for SFIO’s final reports and prosecution recommendations. The Prosecution Division (PD) handles all court-related proceedings, including filing of the charges, representation before tribunals like NCLT/NCLAT, and appeals in High Courts and Supreme Court. It scrutinizes documents, drafts pleadings, and consults legal counsels to ensure procedural robustness. The PD also supervises court records and maintains case progress logs ³⁹. The Legal and Corporate Law Unit (L&CLU) provides timely legal advice on complex issues that emerge during investigations. It interprets provisions of the corporate law and ensures SFIO’s compliance with procedural safeguards under Companies Act, 2013 ⁴⁰. The

³² Companies Act, 2013, s 212(1).

³³ Companies Act, 2013, s 212(6); s 447.

³⁴ Companies Act, 2013, s 447.

³⁵ Companies (Arrests in connection with Investigation by SFIO) Rules, 2017, rr 2–5.

³⁶ *SFIO v. Rahul Modi*, *Criminal Appeal Nos.185–186 of the 2022* (SC).

³⁷ Companies Act, 2013, s 212(14A).

³⁸ *Church of the South India Trust Association v. Union of the India*, W.P. Nos. 25236 & 25419 of the 2018 (Mad HC, 1 Feb 2021).

³⁹ *Ibid*, p. 3.

⁴⁰ *Ibid*, p. 4.

Financial Transactions and Banking Unit liaises with banks, tracks money trails, and coordinates with RBI and Indian Banks' Association to streamline information access ⁴¹.

Supporting all these is Forensic Analysis Unit (FAU), which handles forensic audits, and Market Research and Analysis Unit (MRAU), which compiles intelligence from public sources, media, and regulatory data for trend analysis. MRAU also manages complaint system and examines fraud monitoring reports under RBI norms ⁴².

4. FUNCTIONAL DIMENSIONS OF SFIO: SCOPE AND OPERATIONS

4.1. Trigger for Investigation

Section 212(1) of the Companies Act, 2013 defines triggers for assigning investigations to SFIO. A case may be referred to SFIO on following grounds:

- (a) On report from Registrar of the Companies or inspector under Section 208.
- (b) If company passes special resolution recommending investigation.
- (c) On basis of the public interest concerns.
- (d) Upon request from any Central or State Government department ⁴³.

Each of these triggers allows flexibility for Central Government to respond to urgent fraud situations. In Saradha Chit Fund case, it was public outrage that prompted Ministry of the Corporate Affairs to initiate SFIO investigation ⁴⁴. Likewise, complex financial frauds in Deccan Chronicle Holdings Ltd. were brought to SFIO's attention through reports of the loan defaults and regulatory violations.

4.2. Powers and Procedures

SFIO's powers under Section 212 include summons, arrests, seizure, and inspection of the documents. SFIO officers are treated as police officers under CrPC for purpose of the investigation. Once investigation is assigned, no other agency is permitted to continue parallel inquiries, as per Section 212(2) of the Companies Act, 2013 ⁴⁵. The agency regularly collaborates with Enforcement Directorate (ED), Income Tax Department, CBI, and SEBI to ensure cross-sectoral coordination. Inter-agency cooperation is vital for tracing layered financial frauds that span multiple jurisdictions.

The Companies (Arrests in connection with Investigation by SFIO) Rules, 2017 authorise SFIO to arrest individuals where Director or designated officer has credible evidence of the fraud. The arrest must follow documented "reason to believe," and only officers of the Assistant Director rank or above can arrest, with prior approval from Director ⁴⁶. SFIO also interacts with external forensic experts, CA firms, and market analysts for technical support in audits, particularly where blockchain, shell companies, or cyber assets are involved. For instance, in *Nirav Modi case*, SFIO was part of the inter-agency task force investigating over 110 associated entities.

4.3. Case Studies and Precedents

- (a) The *Satyam Scandal* was SFIO's earliest and most high-profile test. The agency submitted its investigation report within three months, uncovering falsified revenue figures and balance sheets inflated by ₹7,000 crore. The scam exposed major loopholes in auditor independence and forced reformation of the corporate accounting norms.
- (b) In *Saradha Chit Fund case*, SFIO investigated over 60 companies involved in dubious investment schemes across Eastern India. The probe revealed systemic misuse of the investor funds, weak regulatory oversight, and

⁴¹ Ibid, p. 5.

⁴² Ibid, p. 6.

⁴³ Companies Act 2013, s 212(1).

⁴⁴ Shruti Kulshreshtha, 'Critical Appraisal of the Corporate Fraud Regulation in India' (2019) Pen Acclaims 15.

⁴⁵ Companies Act 2013, s 212(2).

⁴⁶ Companies (Arrests in connection with Investigation by SFIO) Rules, 2017.

fictitious financial returns. The investigation helped establish credibility of the SFIO as national fraud watchdog .

- (c) The *Deccan Chronicle Holdings Ltd. case* involved financial misconduct amounting to ₹1,230 crore. SFIO's investigation revealed manipulation of the financial documents and misrepresentation in raising funds via non-convertible debentures. The case illustrated SFIO's capacity to decode loan defaults hidden beneath opaque structures and poor disclosures .

Environmental Violations with Corporate Fraud Dimensions: Scope for SFIO Oversight

With respect to Green washing – as of today, there are no publicly known cases where the SFIO has actively launched investigations specifically targeting greenwashing or standalone environmental corporate fraud. However, the landscape is changing—regulatory bodies are sounding the alarm. The Securities and Exchange Board of India (SEBI) has recently voiced concerns over misleading ESG disclosures, noting instances where companies claimed "no negative environmental impact" while facing environmental violation lawsuits, and where recycled materials were purportedly used without substantiation.⁴⁷ These developments highlight a growing awareness that greenwashing is more than a reputational issue—it impacts investors, market trust, and financial integrity. While SFIO hasn't stepped in yet, its existing legal mandate under Section 447 of the Companies Act empowers it to act when environmental misrepresentation intersects with investor deception in India has witnessed several high-profile environmental violations where corporate actors allegedly engaged in practices that not only caused ecological harm but also involved elements of deception, regulatory evasion, or financial misrepresentation.

For instance, the Baghjan gas blowout (2020) in Assam, caused by Oil India Limited's operations, led to massive ecological damage and human displacement. The National Green Tribunal (NGT) found that the company had operated without proper environmental clearance and imposed compensation of ₹25 crore. Similarly, in the Kodaikanal mercury poisoning case, Hindustan Unilever faced severe criticism and litigation for the alleged dumping of toxic mercury waste and concealment of its environmental impact for years, eventually resulting in court-ordered remediation and compensation. Further, illegal sand mining operations across states like Uttar Pradesh and Maharashtra—often conducted by registered companies—have thrived through falsified documentation, collusion with contractors, and evasion of environmental norms. In Delhi and Gurugram, multiple companies have faced penalties for illegal groundwater extraction under the pretext of legitimate industrial use.

While such cases are typically prosecuted under environmental laws and resolved by tribunals like the NGT, they often involve deeper corporate misconduct such as false environmental certifications, misuse of public funds, concealment of liabilities, or misleading statements in regulatory filings or investor communications. These elements satisfy the definitional criteria of "fraud" under Section 447 of the Companies Act, 2013, particularly when there is intent to deceive and gain undue financial or regulatory advantage. Therefore, in cases where environmental violations intersect with corporate financial deception, the SFIO has a legitimate scope of intervention. Investigating such practices as corporate environmental frauds, rather than treating them merely as environmental infractions, would bring greater accountability, align with ESG enforcement standards, and close a critical regulatory gap in India's corporate fraud framework.

5. THE RELATIONSHIP BETWEEN SFIO AND WHISTLEBLOWERS

Whistleblowers help expose hidden frauds that internal mechanisms often ignore. Their disclosures frequently serve as key inputs in white-collar investigations . Section 177(9) of the Companies Act, 2013 requires listed and certain prescribed companies to establish vigil mechanism. This provision gave formal acknowledgment to whistleblowing as safeguard in corporate governance ⁴⁸. SFIO relies heavily on credible insider disclosures to detect multi-layered accounting fraud and money laundering schemes. In Satyam case, fraud may have been

⁴⁷ Sebi WTM Amarjeet Singh raises concerns of greenwashing by India Inc, Business Standard, 31-01-2025.

⁴⁸ Companies Act, 2013, § 177(9), No. 18, Acts of the Parliament, 2013 (India).

detected earlier if employees had access to protected whistleblower platforms⁴⁹. In PNB-Nirav Modi scam, internal silence allowed forged LoUs to continue undetected for over seven years⁵⁰.

However, whistleblowers in India face significant threats including job loss, defamation suits, workplace retaliation, and threats to personal safety. The Whistleblower Protection Act, 2014 was enacted to protect them, but it remains ineffective due to absence of the clear procedures, time-bound grievance redressal, and independent authority⁵¹. SFIO has no internal whistleblower facilitation mechanism. It neither has formal framework to receive anonymous complaints nor guarantees protection in practice. Though complaints routed via MCA portals are occasionally used for initiating investigation, there is no dedicated wing to handle or protect whistleblowers⁵².

Unlike global standards, Indian whistleblowers do not receive monetary incentives or legal immunity. The United States offers financial rewards of the up to 30% of the recoveries under Dodd-Frank Act, and UK's PIDA protects employees from unfair dismissal and ensures legal protection for disclosures⁵³. India urgently requires statutory whistleblower protection authority with power to ensure anonymity, provide protection, and coordinate with SFIO for initiating time-bound investigation. Until this structural void is addressed, whistleblowing will remain limited and risky⁵⁴.

6. CRITICAL ANALYSIS OF SFIO'S PERFORMANCES

6.1. Strengths

- (a) SFIO is one of the few statutory agencies in India designed exclusively to combat corporate fraud. Its multidisciplinary team includes legal officers, forensic accountants, IT professionals, and market analysts, which allows holistic approach to complex frauds.
- (b) Sections 211 and 212 of the Companies Act, 2013 give SFIO statutory legitimacy and investigative powers, including arrests through Companies (Arrests in connection with Investigation by SFIO) Rules, 2017⁵⁵. These powers make SFIO comparable to institutions like UK's Serious Fraud Office (SFO).
- (c) It can prosecute fraud under Section 447 of the Companies Act, 2013 and initiate disgorgement under Section 212(14A). In IL&FS case, SFIO exposed opaque transactions, inflated asset declarations, and shell company linkages used for debt manipulation⁵⁶.
- (d) Between 2003 and 2017, SFIO completed 312 investigations uncovering fraud worth over ₹10,800 crore. Its capacity for financial analysis and coordinated probes has expanded in recent years, particularly through inter-agency collaboration⁵⁷.

6.2. Challenges and Limitations

- (a) Despite statutory backing, SFIO continues to operate under significant manpower shortages. The Standing Committee on Finance (2019) found that 75 out of the 130 sanctioned posts in SFIO were lying vacant, undermining its investigative capacity⁵⁸.

⁴⁹ Shruti Kulshreshtha, Serious Fraud Investigation Office: The White Collar Crime Controller, 5 Pen Acclaims 15, 18 (2019).

⁵⁰ Government of the India, Report on PNB-Nirav Modi Scam (Ministry of the Finance 2018).

⁵¹ Whistle Blowers Protection Act, 2014, No. 17, Acts of the Parliament, 2014 (India).

⁵² Law Commission of the India, 255th Report on Whistleblower Protection and Corporate Governance (2015), 22.

⁵³ Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 922, 124 Stat. 1376 (2010) (U.S.); Public Interest Disclosure Act 1998, c. 23 (U.K.).

⁵⁴ Dr. M.L. Bhasin, Corporate Frauds and Whistleblowers in India: Issues and Challenges, 3(2) Indian J. Corp. L. Rev. 1, 12 (2020).

⁵⁵ Companies (Arrests in connection with Investigation by SFIO) Rules, 2017, GSR 1041(E).

⁵⁶ SFIO, IL&FS Investigation Report, 2019, <https://www.s fio.gov.in> (last visited Apr. 9, 2025).

⁵⁷ Shruti Kulshreshtha, *supra* note 3, at 19.

⁵⁸ Standing Committee on Finance, Seventeenth Report on Regulation of the Audit Firms (2019), Lok Sabha Secretariat.

- (b) There is also frequent jurisdictional overlap with agencies like SEBI, ED, CBI, and Income Tax authorities. Such turf conflicts often result in delayed investigation or contradictory findings, as seen in Saradha Chit Fund probe ⁵⁹.
- (c) SFIO suffers from procedural delays in prosecutions. Though SFIO can file complaints directly, there are no special courts or fast-track mechanisms for white-collar crime, leading to years of the pendency as in Deccan Chronicle case ⁶⁰.
- (d) Whistleblower protection remains dormant area. While Companies Act mandates vigil mechanisms, compliance is weak, and whistleblower inputs are often ignored due to lack of the structured integration with SFIO operations ⁶¹.
- (e) SFIO cannot take suo motu cognizance of the frauds. It must wait for directions from Central Government, which restricts agility in fraud response. In cases of the political or bureaucratic interest, referrals may be delayed or blocked altogether .
- (f) The SFIO lacks domain expertise in environmental regulation and ESG assessment. Greenwashing cases often involve technical evaluation of sustainability disclosures, carbon reporting, or green certifications—areas where SFIO currently has no dedicated personnel or analytical frameworks, making investigation difficult without inter-agency support.
- (g) Greenwashing is not explicitly recognized as a form of corporate fraud under Indian law. In the absence of statutory guidelines or regulatory clarification, SFIO may face jurisdictional uncertainty or resistance in initiating probes into environmental misrepresentation, even when financial deception is evident.

7. COMPARATIVE PERSPECTIVE: GLOBAL BEST PRACTICES

United Kingdom: India's SFIO is inspired in part by UK's Serious Fraud Office (SFO) and US's Securities and Exchange Commission (SEC). Both jurisdictions offer distinct yet valuable models. The SFO in UK, established under Criminal Justice Act, 1987, operates with power to prosecute white-collar crimes directly and autonomously ⁶². Unlike SFIO, it can initiate investigations on its own—without needing central nod. The US SEC, through Dodd-Frank Act, grants extensive whistleblower protections and incentives, awarding up to 30% of the collected penalties ⁶³. The SEC's integration with FBI's Economic Crimes Unit and DOJ Fraud Section makes its ecosystem dynamic and responsive. In India, such cross-functional teams rarely coordinate effectively, leading to overlapping probes and systemic inefficiencies .

United States: The Enron Scandal (2001) led to enactment of the Sarbanes-Oxley Act (SOX) in US, which imposed stringent rules on financial disclosures and director responsibility ⁶⁴. In Walmart FCPA Case (2019), US enforced accountability for global corporate bribery, showcasing its extraterritorial jurisdiction reach ⁶⁵. The UK SFO functions with Roskill Model where prosecutors, investigators, accountants, and police work together, unlike India's SFIO which lacks prosecutorial autonomy ⁶⁶. India's dependency on Central Government referrals limits SFIO's independent function. Adopting cross-agency embedded teams and giving suo motu powers to SFIO can elevate its effectiveness ⁶⁷.

International Enforcement of Greenwashing as Corporate Fraud

In countries like the United States, United Kingdom, and Canada, agencies with mandates similar to India's SFIO have begun treating greenwashing as a form of corporate fraud where it involves material misrepresentation

⁵⁹ Shruti Kulshreshtha, *supra* note 3, at 21.

⁶⁰ Deccan Chronicle Holdings Ltd. v. SFIO, SLP (Criminal) No. 4002 of the 2016 (Supreme Court of the India).

⁶¹ Companies Act, 2013, § 177(9), No. 18, Acts of the Parliament, 2013 (India).

⁶² Criminal Justice Act 1987, c. 38 (U.K.), § 1.

⁶³ Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 922, 124 Stat. 1376 (2010) (U.S.).

⁶⁴ Sarbanes-Oxley Act of the 2002, Pub. L. No. 107-204, 116 Stat. 745 (U.S.).

⁶⁵ United States Securities and Exchange Commission, "SEC Charges Walmart With FCPA Violations," (2019).

⁶⁶ Naresh Chandra Committee Report (2002), Ministry of the Corporate Affairs (India).

⁶⁷ Shruti Kulshreshtha, Serious Fraud Investigation Office: The White Collar Crime Controller, 5 Pen Acclaims 15, 18 (2019).

and financial intentions. In the U.S., the Securities and Exchange Commission (SEC) established its Climate and ESG Task Force in March 2021 to identify deceptive ESG-related disclosures. Notably, in 2022, the SEC penalized Goldman Sachs Asset Management (\$4 million) and BNY Mellon (\$1.5 million) for misleading ESG investment statements. In the U.K., while the Serious Fraud Office (SFO) has not yet prosecuted a greenwashing case, the Competition and Markets Authority (CMA) has enforced its Green Claims Code through investigations of companies like ASOS, Boohoo, and George at Asda, resulting in commitments to accurate environmental claims. In Canada, the Competition Bureau fined Keurig Canada CAD 3 million in 2022 for misleading recyclability claims on its K-Cup pods. These developments demonstrate that in mature regulatory environments, greenwashing can trigger fraud or consumer protection enforcement—a precedent that supports extending SFIO's mandate in India to include environmental corporate frauds under Section 447 of the Companies Act, 2013.

8. ASSESSING THE CAPACITY AND CHALLENGES OF SFIO IN TACKLING COMPLEX CORPORATE FRAUD IN INDIA

While it has made significant strides since its formation in 2003—particularly after being granted statutory powers under Section 211 of the Companies Act, 2013—questions remain regarding its ability to handle the evolving scale, complexity, and technological sophistication of modern corporate frauds.

Way Forward

To equip SFIO for future challenges, the following steps are essential:

- **Capacity Building:** Recruiting permanent, well-trained specialists and investing in forensic tools, AI-powered analytics, and cybercrime detection infrastructure.
- **Autonomy & Independence:** Allowing SFIO suo moto powers to initiate investigations in high-risk cases could make it more responsive.
- **Stronger Legal Provisions:** Enabling faster prosecution and dedicated SFIO benches in courts.
- **Inter-agency Synergy:** Establishing an integrated digital platform for coordination with other enforcement bodies.
- **Global Cooperation:** Enhancing treaties and data-sharing arrangements with international regulators to tackle cross-border frauds.

While the SFIO has laid a strong foundation in combating corporate fraud in India, the complexity and globalization of economic crimes require a significant overhaul in its operational, technological, and legal framework. With the right reforms, it can evolve into a globally competent fraud investigation agency capable of tackling even the most intricate corporate deceptions.

Major Bottlenecks Faced by SFIO in Investigation, Prosecution, and Recovery

The Serious Fraud Investigation Office (SFIO) was established to handle complex financial and corporate frauds in India. Despite its mandate and certain landmark investigations, the SFIO continues to face critical bottlenecks that limit its efficiency, speed, and deterrent value in investigation, prosecution, and recovery.

I. Bottlenecks in Investigation

1. Limited Manpower and Expertise

- Many positions are filled on deputation rather than through permanent recruitment.
- Shortage of forensic accountants, IT experts, and specialized investigators limits the capacity to handle sophisticated frauds.

2. Delayed Referrals from MCA

- SFIO can only take up cases after a referral from the Ministry of Corporate Affairs (MCA) under Section 212 of the Companies Act, 2013, which often causes significant delays in starting the investigation.

3. Lack of Advanced Technology Tools

- SFIO is not fully equipped with cutting-edge tools for digital forensics, blockchain tracing, or AI-assisted data analytics, which are critical in investigating modern financial crimes.

4. Poor Inter-agency Coordination

- Lack of seamless coordination with other enforcement agencies like ED, CBI, SEBI, RBI, and Income Tax Department leads to duplication of efforts, jurisdictional confusion, and fragmented case building.

5. Jurisdictional Hurdles in Multi-State and Cross-border Cases

- Investigating multi-jurisdictional frauds is challenging due to lack of harmonized protocols and limited international cooperation mechanisms.

II. Bottlenecks in Prosecution

1. Weak Legal Framework

- Corporate fraud cases often fall in the grey area of civil and criminal law, complicating prosecution and often leading to weaker charges or procedural delays.

2. Delayed Filing of Chargesheets

- Due to complex investigations, lack of staff, and the volume of documents involved, filing chargesheets takes years, diluting the impact of prosecution.

3. Burdened Judicial System

- Fraud cases investigated by SFIO are tried in regular courts, which are already overburdened, leading to slow trials and adjournments.

4. Low Conviction Rate

- Due to procedural lapses, absence of airtight evidence, and skilled legal defence by corporates, conviction rates remain low, weakening the deterrent effect.

5. Absence of Dedicated Fraud Courts

- Unlike tribunals such as NCLT/NCLAT or PMLA courts for ED, SFIO lacks dedicated benches or fast-track courts for corporate fraud cases.

III. Bottlenecks in Recovery of Assets

1. Tracing and Attachment of Assets

- Fraudsters often divert assets through layered transactions, shell companies, or offshore havens, making identification and attachment extremely difficult.

2. Delay in Enforcement of Asset Seizure

- Even when assets are identified, court orders and bureaucratic processes delay actual seizure or liquidation.

3. No Independent Recovery Mechanism

- SFIO does not have powers like ED under the PMLA to independently attach properties; it relies on other agencies or judicial orders.

4. Insolvency Proceedings Limit Scope of Recovery

- When fraud is linked with an insolvent company, the matter shifts to IBC proceedings, where recovery is prioritized for financial creditors—not necessarily victims or the government.

Despite its potential, SFIO is hampered by resource limitations, procedural delays, legal ambiguities, and inter-agency fragmentation. To overcome these bottlenecks, it requires:

- Dedicated fraud courts and legal reforms to streamline prosecution;
- Enhanced technological and forensic capabilities;
- Greater institutional autonomy and staffing;
- Formal inter-agency collaboration frameworks;
- Power to initiate action suo moto in urgent cases.

Unless these systemic challenges are addressed, the SFIO's role in combating large-scale corporate fraud will remain constrained and reactive, rather than proactive and impactful.

8.1. Can SFIO Play a Meaningful Role in Addressing Corporate Environmental Frauds such as Greenwashing within its Existing Legal and Institutional Framework?

The Serious Fraud Investigation Office (SFIO) is mandated to investigate and prosecute serious and complex corporate frauds, primarily financial and accounting irregularities under the Companies Act, 2013. While the agency is well-placed to deal with traditional corporate misconduct, its current legal and institutional framework presents limitations in addressing corporate environmental frauds, such as greenwashing.

I. Understanding Greenwashing as Corporate Fraud

Greenwashing refers to deceptive marketing or public relations strategies where companies misrepresent their environmental practices or the ecological benefits of their products, often to mislead consumers, investors, or regulators.

While this clearly involves elements of fraud, it often lies at the intersection of environmental law, consumer protection, and securities regulation, which are not the traditional focus areas of SFIO.

II. Legal and Institutional Limitations of SFIO

Area	Limitation
Jurisdiction	SFIO can only investigate frauds referred by the Ministry of Corporate Affairs (MCA), and typically those involving company law violations. Greenwashing, unless tied directly to financial misrepresentation or shareholder deception, may not fall under its purview.
Mandate Focus	SFIO's investigative framework is geared toward accounting frauds, embezzlement, and financial misreporting. Environmental misrepresentation may escape scrutiny unless it results in direct financial fraud against stakeholders.
No Specific Environmental Expertise	SFIO lacks environmental science or sustainability experts on staff, making it ill-equipped to assess technical validity of green claims or environmental compliance.
Overlap with Other Regulators	Environmental frauds fall primarily under the purview of agencies like the Central Pollution Control Board (CPCB), SEBI (for ESG disclosures), and the Ministry of Environment, Forest and Climate Change (MoEFCC).

III. When SFIO *Can* Step In

Despite these constraints, SFIO can investigate greenwashing-related frauds if they satisfy the following conditions:

- The green claims are linked to financial fraud, such as inflating stock value or misleading investors through false ESG disclosures.
- The company falsifies sustainability reports or audit records submitted under mandatory business responsibility frameworks (e.g., BRSR by SEBI).
- The fraud involves diversion of CSR funds or environmental project grants, under the guise of green initiatives.

Example: If a listed company claims to have invested ₹100 crore in renewable energy as part of CSR or ESG compliance, but later investigations reveal fictitious contracts or shell entities, SFIO could step in under Sections 447 (fraud), 448 (false statements), and 449 (false evidence) of the Companies Act.

IV. Steps to Empower SFIO in Environmental Fraud Space

To meaningfully address corporate environmental frauds like greenwashing, the following reforms are essential:

- Broaden the Definition of Corporate Fraud in the Companies Act to explicitly include environmental misrepresentation with financial implications.
- Strengthen Inter-agency Coordination between SFIO, SEBI, CPCB, and MoEFCC to allow for joint investigations in ESG-related frauds.
- Amend ESG Disclosure Rules under SEBI to clearly define greenwashing as a punishable offence.
- Capacity Building: Recruit environmental auditors, sustainability experts, and forensic analysts to SFIO's investigative teams.
- Allow suo moto powers to SFIO in high-impact cases of public deception involving environmental claims.

Under its current framework, SFIO's role in tackling greenwashing is limited and case-specific, mainly where such frauds result in financial deceit under the Companies Act. To play a systematic and preventive role in curbing environmental corporate frauds, SFIO needs legal clarity, institutional capacity, and cross-sectoral

collaboration. Given the rising importance of ESG compliance in India's corporate ecosystem, expanding SFIO's reach into environmental frauds is both timely and necessary.

9. RECOMMENDATIONS FOR STRENGTHENING SFIO

9.1. Legislative and Procedural Reforms

SFIO should be given suo motu powers to start investigations on matters involving systemic fraud or public interest. The present reliance on Central Government sanction often results in delays or non-referrals⁶⁸. Amendments to Section 212 of the Companies Act, 2013 can make this shift viable. A dedicated Special SFIO Tribunal under NCLT framework should be created to fast-track fraud prosecution. The current system lacks timeline-bound hearings, delaying investor relief and punishment⁶⁹.

9.2. Enhanced Budgetary and Human Resources

The sanctioned strength of the SFIO is 130, but only 55 officers were appointed as per 17th Standing Committee Report⁷⁰. Immediate recruitment and upskilling of the forensic accountants, legal advisors, and AI professionals is essential. The SFIO must adopt AI tools and forensic blockchain tracing to handle modern frauds like crypto laundering and digital shell firms.

9.3. Improved Inter-agency and International Coordination

SFIO should collaborate closely with CBI, ED, SEBI, RBI, and international counterparts. Creation of the National Corporate Fraud Grid, similar to FinCEN (USA), will help share intelligence and prevent duplication of the investigations⁷¹.

9.4. Whistleblower Framework Reform

A National Whistleblower Protection Authority must be established with powers to grant anonymity, protection, and rewards. Its integration with SFIO can ensure that valuable information reaches investigators safely⁷². SFIO can learn from SEC Whistleblower Office, which has disbursed over \$1.2 billion to whistleblowers so far⁷³.

9.5. Centralized Fraud Reporting Mechanism

SFIO should manage National Fraud Reporting Portal for individuals, auditors, and insiders to file fraud disclosures. This portal should auto-route cases to SFIO, SEBI, or CBI depending on matter, with escalation options in cases of the inaction⁷⁴.

9.6. Statutory Integration of Environmental Fraud within SFIO's Investigative Framework

The Central Government, in consultation with the Ministry of Corporate Affairs, should issue a specific notification or amend the Companies (Inspection, Investigation and Inquiry) Rules to explicitly empower the SFIO to investigate cases involving environmental misrepresentation—such as greenwashing—where such acts constitute fraud under Section 447 of the Companies Act, 2013. This would ensure legal clarity and operational competence in addressing instances where corporations intentionally disseminate false or misleading environmental claims in official disclosures, regulatory filings, or public offerings with the intent to gain undue advantage or mislead stakeholders. Incorporating environmental fraud within the definitional and operational

⁶⁸ Government of the India, 13th Report of the Standing Committee on Finance (2015–16), Ministry of the Corporate Affairs.

⁶⁹ Shruti Kulshreshtha, *supra* note 7, at 22.

⁷⁰ Government of the India, 17th Report of the Standing Committee on Finance (2019), Lok Sabha Secretariat.

⁷¹ Ministry of the Corporate Affairs, "Need for National Grid to Combat Corporate Frauds," 2023.

⁷² Whistle Blowers Protection Act, 2014, No. 17, Acts of the Parliament, 2014 (India).

⁷³ SEC Whistleblower Program, Annual Report to Congress FY 2022.

⁷⁴ SFIO Annual Report 2023, www.sfio.nic.in.

scope of corporate fraud will strengthen India's ESG enforcement architecture and align regulatory responses with emerging global compliance standards.

10. CONCLUSION

India's SFIO has evolved from non-statutory body into powerful investigative office with statutory teeth under Companies Act, 2013. Yet, it remains underutilized due to manpower shortages, dependency on Central Government, and lack of the institutional autonomy⁷⁵. The comparative study of the SFO and SEC reveals potential of giving the SFIO independent prosecutorial powers, strong whistleblower mechanisms, and tech-enabled investigations. With over ₹10,800 crores worth of the fraud unearthed since 2013, SFIO has proven its relevance—but needs structural reform to sustain momentum⁷⁶. Reinforcing SFIO's authority, expanding its digital capability, ensuring judicial fast-tracking, and establishing ethical corporate culture can build more fraud-resilient Indian economy. The future of the investor confidence, stakeholder protection, and corporate governance rests on shoulders of the agencies like SFIO. India must act now to empower it fully.

As corporate fraud in India continues to evolve in complexity and scope, enforcement agencies like the SFIO must adapt to new forms of deception that go beyond traditional financial irregularities. One such emerging concern is corporate environmental fraud, particularly greenwashing, where companies intentionally mislead stakeholders about their environmental practices to secure financial benefits or regulatory leniency. Although SFIO has not yet undertaken major investigations in this domain, its statutory powers under Section 447 of the Companies Act, 2013 provide a clear basis for action where environmental misrepresentation intersects with financial fraud, investor deception, or public interest. Given the increasing integration of ESG criteria in corporate valuation and investor decisions, environmental misstatements now carry material financial implications, making them a legitimate area of concern for fraud regulators. Thus, SFIO's mandate must be interpreted and expanded dynamically to include such contemporary challenges, ensuring that corporate accountability extends not just to shareholders, but to environmental integrity and public trust.

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⁷⁶ *Ibid.*, at 25.

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