

Serious Fraud Investigation Office (SFIO): Notes for UPSC

Serious Fraud Investigation Office (SFIO) is a fraud-investigating agency set up to investigate corporate frauds of very serious and complex nature. The authorisation of SFIO is limited to investigating frauds related to a company under the Companies Act. The investigation done by SFIO is considered separate from other normal investigations into the affairs of the company.

SFIO falls under the jurisdiction of the Ministry of Corporate Affairs. The SFIO is involved in major fraud probes. It coordinates with the Income Tax Department and the Central Bureau of Investigation (CBI) for fraud investigation.

Why was the SFIO setup?

SFIO was set up in the backdrop of stock market scams of 2000-02, phenomena of plantation companies and vanishing companies and failure of non-financial banking companies.

The Vajpayee Government decided to set up SFIO on 9 January 2003, based on the recommendation of Naresh Chandra Committee on corporate governance (appointed by the Government of India in 2002) and in the backdrop of stock market scams as also the failure of non-banking companies resulting in a huge financial loss to the public.

Powers of SFIO

As per the resolution of 2nd July 2003, SFIO is to take up only the investigation of frauds characterized by:

- Complexity, having inter-departmental and multi-disciplinary repercussions.
- Significant involvement of public interest to be judged by size, either in terms of monetary malpractice or in terms of the persons affected.
- The potential of investigations leading to, or assisting towards, a clear improvement in systems, laws or procedures.

Process

- SFIO starts an investigation only after receiving an order from the Union government in this respect which means it cannot take up cases on their own initiative.
- Once a case has been assigned by the Central Government to the SFIO for investigation under Companies Act, 2013 no other investigating agency of the Central Government or any State Government can commence the investigation in such cases. In case any such investigation has already been initiated, it cannot be proceeded further with, and the

concerned agency has to transfer the relevant documents and records in respect of such offences to the Serious Fraud Investigation Office.

Can SFIO make arrests?

- The Serious Fraud Investigation Office (SFIO) has the power to arrest people who violate the company's law.
- The director, as well as additional or assistant director level officials at the SFIO, have the authority to arrest a person if they believe that the person guilty of any offence with regard to the case being probed, provided there is a written complaint of the offence.
- The responsible authority for all the decisions relating to the arrest is the Director of SFIO.
- If a person is caught in connection with the government or foreign company under investigation, it is important that prior approval of the central Government is provided to the SFIO.