Early Physical Checks Sought on Offices, Honchos

Spurt in no. of vanishing cos leads to demand for verification of cos during registration

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India's Serious Fraud Investigation Office has sought physical verification of the details provided by a company at the time of registration after a recent spurt in cases of corporate frauds.

The SFIO has suggested that the registrar of companies carry out the verification of the addresses of the company as well those of its directors to prevent them from running away after raising capital.

"If verification can be carried out all over the country for issuing passports, why the same procedure can't be followed while registering a company, which is a legal entity," said an official in the ministry of corporate affairs privy to the proposal.

At present, a company can be registered just on the basis of a self-attested address proof and pre-certification by a recognized professional, such as a chartered accountant, is only optional.

Minister of state for corporate affairs R P N Singh had told the Lok Sabha in March that there are 87 firms in the list of 'vanishing companies'. The term is applied for fims that cease to file their statements of return or where their registered office or directors are not traceable after they have raised capital.

The power to register companies is vested in the registrar of companies, who also ensure compliance of statutory requirements under the Companies Act.

As of date, there are more than 1.2 million registered companies in India.

Although experts agree with the need to verify details of companies before their registration, they say physical verification is prone to misuse.

"The intention and purpose should be genuine otherwise it will end up just increasing the transaction costs without bringing in much transparency," said LVV Iyer, company law expert at law firm Iyer and Associates.

Hitendra Mehta, senior partner with Vaish Associates, said the government should instead make pre-certification by professionals mandatory.

"However, governing institutes such as the Institute of Chartered Accountants of India, then must take stern view in dealing with fraudulent certifications," he added.

Officials in the ministry of corporate affairs agree that the registration process is lax.

"In 2006, SFIO had sent a report to the ministry on the systemic failures in the process of registration of companies while investigating a corporate group, but no step has been taken in this regard yet," the ministry of corporate affairs official quoted earlier said. The official blamed attempts to over simplify the registration process for the slackness.

Experts agree with the need to verify details of cos, but fear misuse of physical verification

"The quickest way is not always the most efficient and there is a need to make the cost of incorporating companies prohibitive (to ensure seriousness)," the official said, adding that a company with an authorized share capital of Rs 1 crore has to pay just Rs 1.5 lakh to get incorporated.

SFIO agrees that the registration rules need to be tightened.

"The sum is paltry and must be increased if we are to incentivise and attract serious people to start business ventures," a SFIO official said.