

Govt asks states to ban multi-level marketing schemes

[Shruti Srivastava](#) : New Delhi, Mon Dec 03 2012, 02:34 hrs. Indian Express



The Centre has proposed state governments to ban all companies running schemes which offer monetary benefits to subscriber for enrolling members to their scheme.

In effect, all companies, firm or business associations in any form or individuals will not be allowed to run a scheme “with a compensation plan in which the subscribers would compulsorily have to enroll certain minimum number of subscribers to become entitled to monetary benefits or link the monetary benefits or commission to the subscribers”.

The proposal is a part of the centre’s effort to curb the menace of ponzi schemes, which has flourished in the country due to absence of regulatory oversight, the most recent and bizarre being the case of Gurgaon-based Beetal Livestock & Farm which had promised its investors a return of 2 per cent per month, and that too by rearing goats. Suspecting foul play, market regulator Sebi issued show-cause notice to the company that returned undelivered.

After the case of alleged fraud committed by Singapore-based multi-level marketing (MLM) portal SpeakAsia Online, the government started the process of reining in such companies which offered impossibly high returns in a very short span or offered huge benefits for enrolling more subscribers.

An inter-ministerial committee comprising the Reserve Bank of India, and ministries of consumer affairs, corporate affairs, finance and law, was formed to look into the matter. It suggested setting up of a central agency to oversee MLM schemes and also proposed to filter and block websites above a certain number of subscribers to curb such schemes.

“In fact, we are working on bringing in these companies under the Companies Act. This is possible under section 583 of the act where such unregistered companies will be considered deemed registered, thereby bringing them under the MCA’s purview,” a government official told the Indian Express.

The MCA has circulated The State Money Circulation Scheme (Banning), 2012, among states, where it has also suggested that the nodal police authority in the state would be responsible for interacting with other states for information on such companies while the

central government and concerned departments will furnish information regarding these companies to the Reserve Bank of India.

However, other investigating agencies will also have the authority to get information from states governments and other agencies.

The MLMs do not fall under the direct jurisdiction of any regulator or department and hence is not effectively monitored. The ministries of finance and home and regulators including the RBI and Sebi have already conveyed that they don't look into the matters concerning MLMs.

Earlier, in India, MLMs such as Pinnacle Education and Opportunity Ltd, Gurudev Travel Connection, City Limousine and Kanakdhara Gold have been probed for alleged frauds.

Ponzi schemes

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