



Shell Companies (Introduction & Case Studies)



**AN INVESTIGATOR'S
PERSPECTIVE**

:

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Definition

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- **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 :-
 - 'Phantom Companies'
 - 'Anonymous Companies'
 - 'Ghost Companies'



Definition

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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



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- 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



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- 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

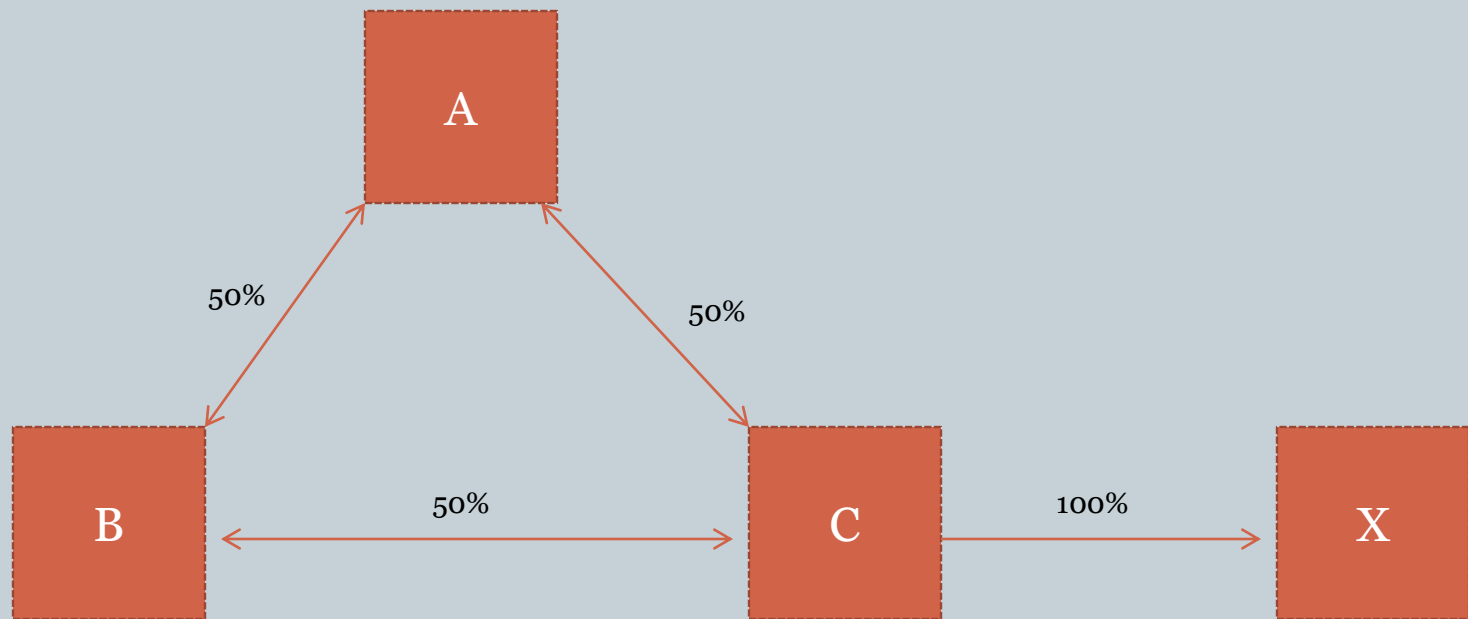
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CASE STUDIES

Shell Companies : Case Study 1

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- **A shareholding structure is shown below:**



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



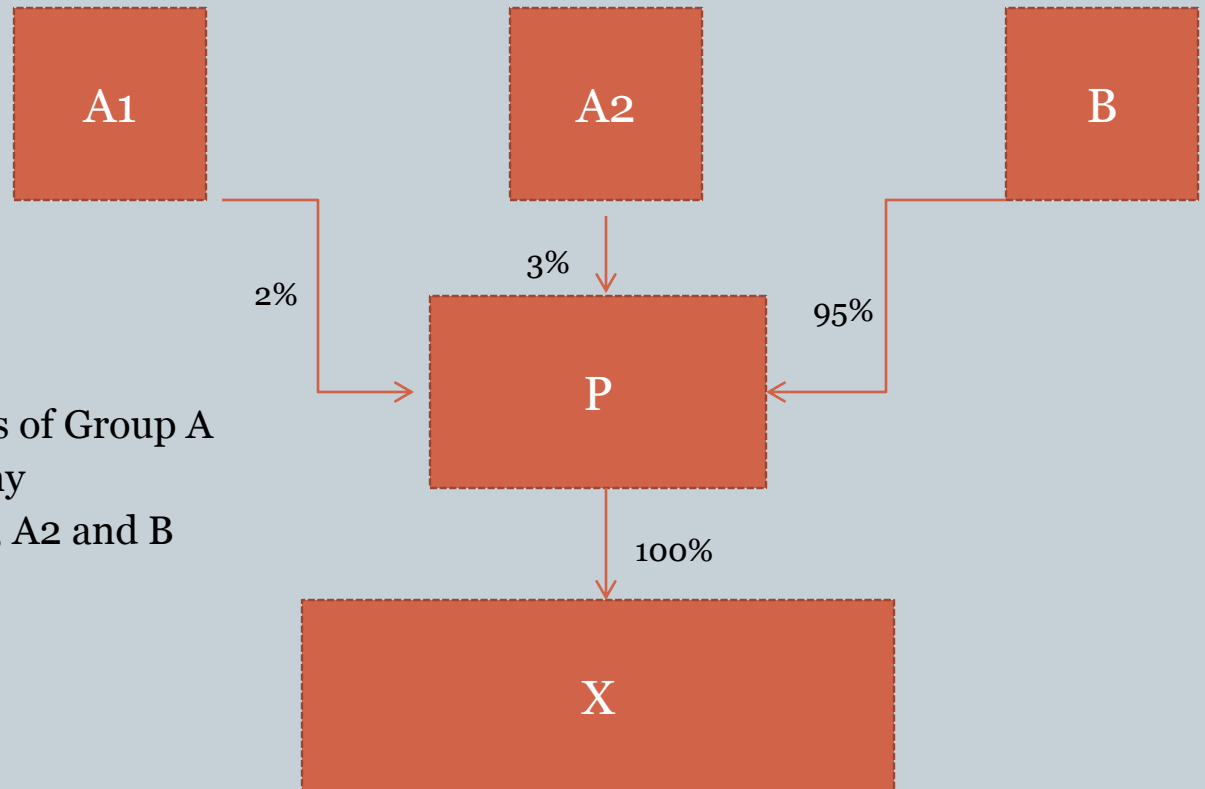
Case Study 1 ...2

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- 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

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- A1 & A2 are sister companies of Group A
- B is a Shell /dummy company
- P is a partnership firm of A1, A2 and B

- **Who controls 'X' – 'Group A' or 'B' ?**



Case Study 2 ...2

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- 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.



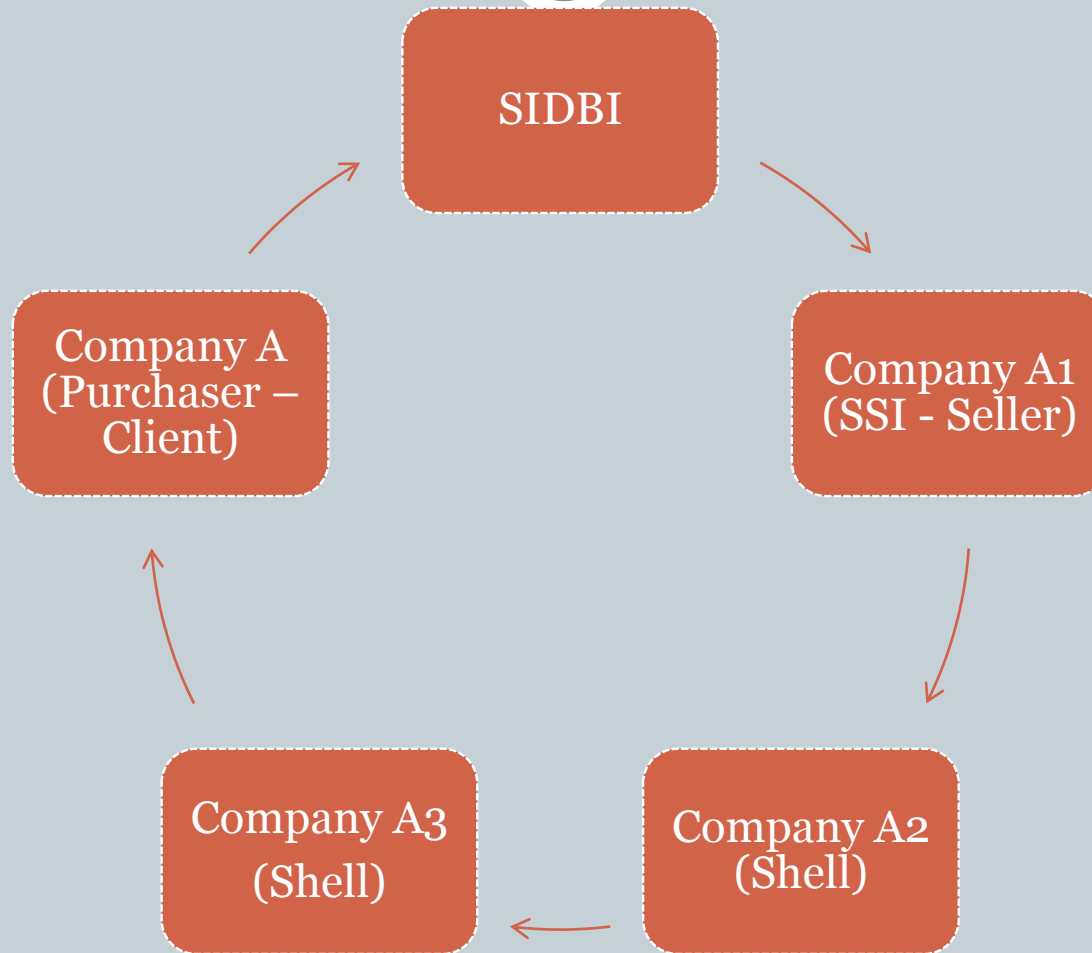
Case Study 3

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- 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

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Case Study 3 ... 3

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- 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

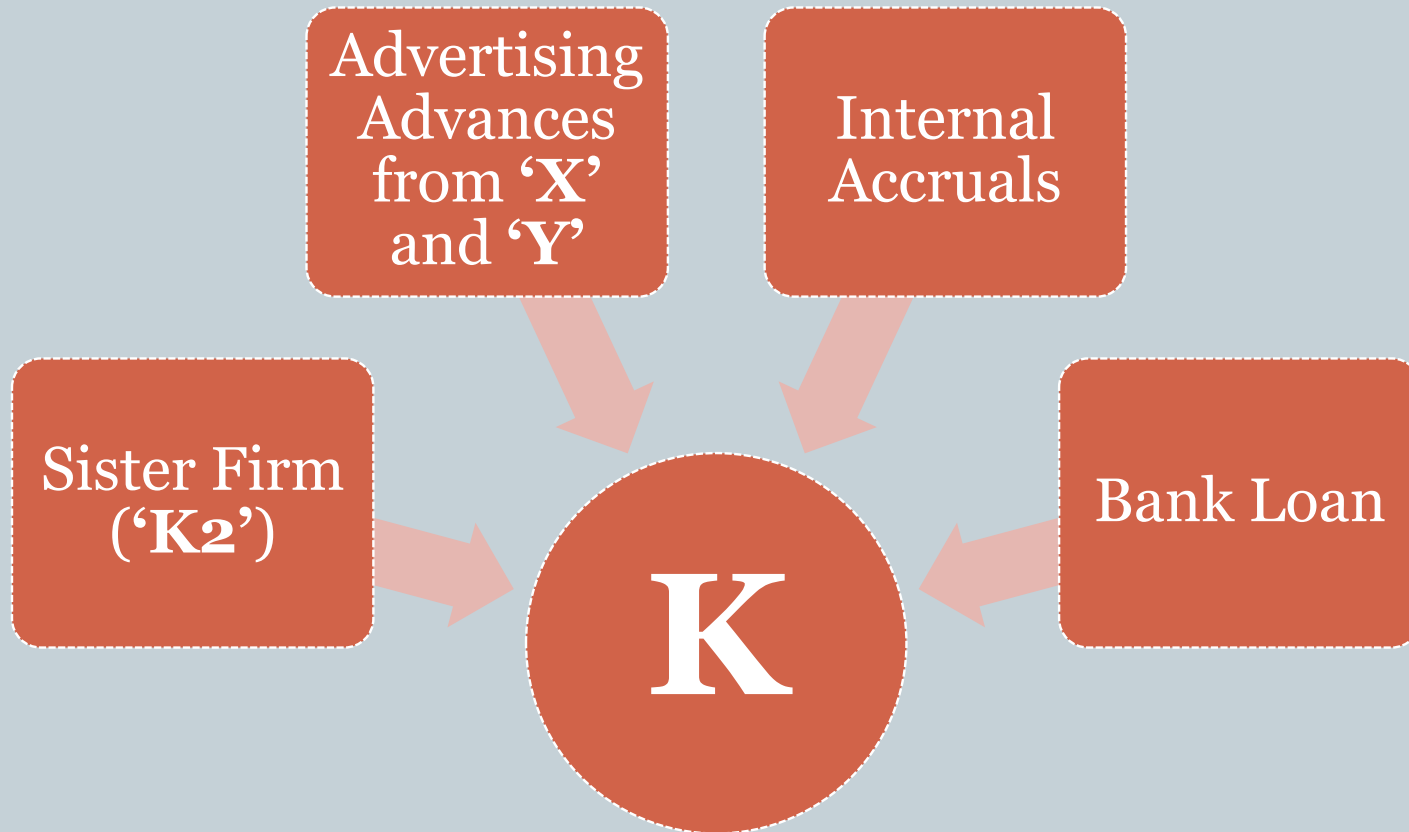


- Searches during December, 2009
- Interrogation of suspects during August 2010 to March 2011
- Follow up Searches of main accused December 2010
- 19th December, 2010 : Accused Minister called for questioning
- 24th December, 2010 : Accused Minister joins for questioning
- January 2011 : Interrogation 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

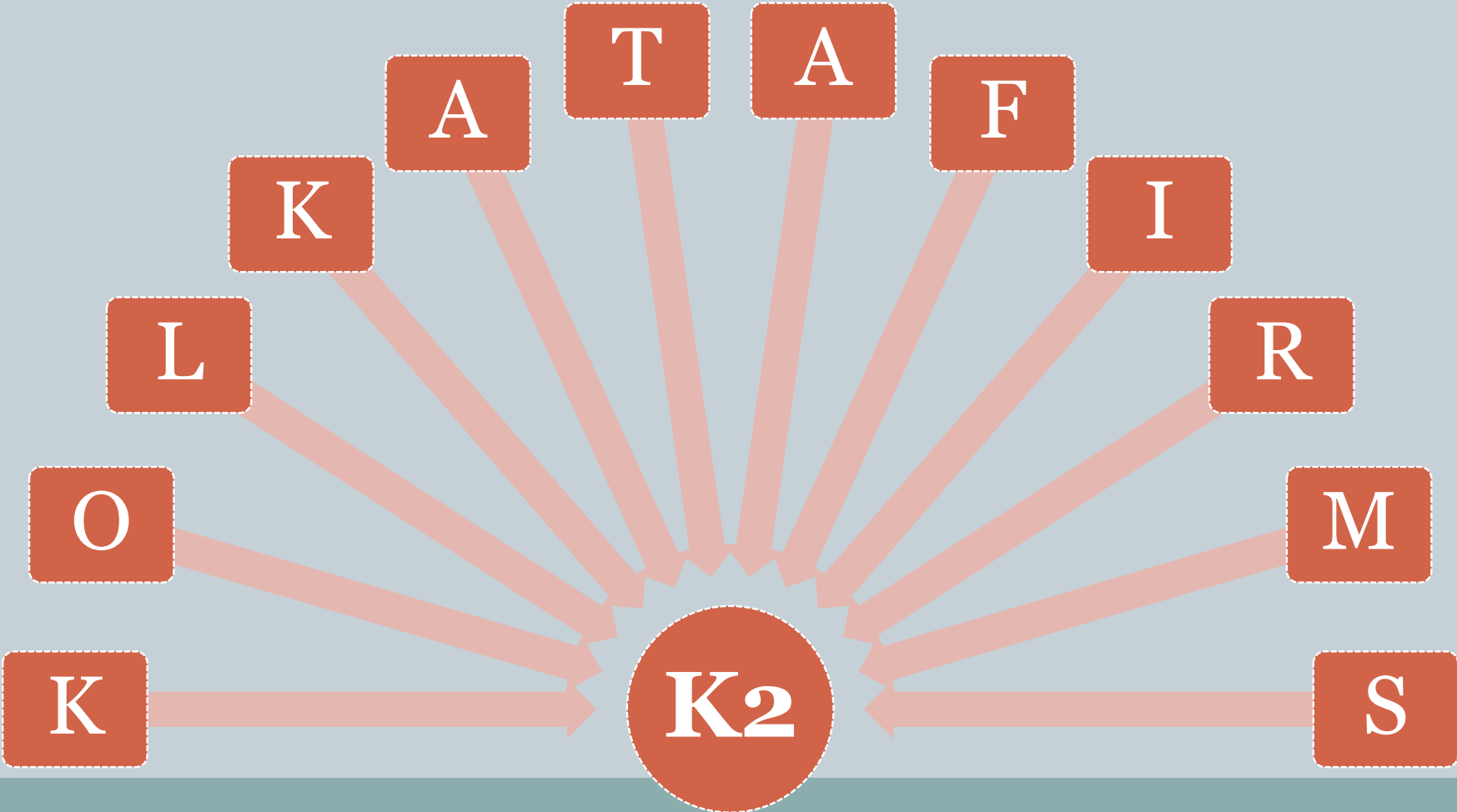
2G Spectrum Case : Bribe returned



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

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- **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.



Thanks

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