De-Registering Shell Companies

Why in news?

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The Ministry of Corporate Affairs (MCA) is preparing to send show-cause notices to over three lakh more firms (Shell companies) for striking off their names from the 'register of companies'.

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What is a Shell Company?

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- A shell company is a company that exists but does not actually do any business or have any assets.
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- They exist merely as a front for a person or organisation that wishes to **hide its identity.**
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What measures are proposed by the government?

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- The scrutiny against shell companies was stepped up in the wake of demonetisation and as part of the action against black money.
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- The action is focused against companies that failed to start business within one year of incorporation or were not carrying on any business for two immediately preceding financial years or not applied for dormant status.
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- Actions are initiated under the Companies Act.
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- In April, Registrar of Companies (RoC) issued show cause notices to over two lakh companies for striking off their names.
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- The firms are given 30 days to submit their response.

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- If the reply is found unsatisfactory, the corporate entity’s name will be removed.
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- The Enforcement Directorate (ED) will be roped in to probe if companies deregistered recently have been involved in money laundering
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What options do the de-registered companies have?

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- As per Section 252 of the Companies Act, the persons aggrieved by the RoC order may file an appeal to the **National Company Law Tribunal (NCLT)** within three years from the RoC’s order.
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- If the NCLT finds that the removal of the company’s name was unjustified, it may order its restoration in the register.
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Quick Facts

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Enforcement Directorate (ED)

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- The Directorate of Enforcement is a law enforcement agency and economic intelligence agency responsible for enforcing economic laws and fighting economic crime in India.
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- It is part of the **Department of Revenue**, Ministry of Finance.
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- The prime objective of the Enforcement Directorate is the enforcement of two key Acts of the Government of India namely, the **Foreign Exchange Management Act 1999** (FEMA) and the **Prevention of Money Laundering Act 2002** (PMLA).
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National Company Law Tribunal

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- The National Company Law Tribunal (NCLT) is a quasi-judicial body in India that adjudicates issues relating to companies in India.
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- The NCLT was established **under the Companies Act 2013** and was constituted on 1 June 2016.
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- Decisions of the NCLT may be appealed to the **National Company Law Appellate Tribunal.**
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Source: The Hindu

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