

400 UNDER SCANNER FOR HELPING CHINESE FIRMS

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The Union government has recommended disciplinary action against 400 chartered accountants (CAs) and company secretaries (CSs) for their alleged role in incorporating Chinese shell companies in metropolitan cities by flouting norms and rules, *The Hindu* has learnt.

The stringent action is among a series of measures taken by the government against Chinese business entities after the 2020 Galwan incident when 20 soldiers were killed in clashes with the Chinese People's Liberation Army (PLA).

Though the Foreign Direct Investment (FDI) from Chinese companies has come to naught in the past two years due to various regulatory measures initiated by the government, the trade between the two countries hit a record \$125 billion last year. In April-June 2020, FDI from China (counted from the year 2000) stood at Rs. 15,422 crore while in the first quarter of 2022 it has come down to Rs. 12,622 crore, according to Department for Promotion of Industry and Internal Trade (DPIIT) data.

A senior government official told *The Hindu* that the CAs and CSs against whom disciplinary action was initiated had helped incorporate a large number of Chinese-owned or Chinese-run shell companies without adequate compliance of rules and law. The Ministry of Corporate Affairs (MCA) recommended the action after receiving inputs from financial intelligence units in the past two months. A Ministry spokesperson did not comment.

The Institute of Chartered Accountants of India (ICAI), a statutory body that regulates the profession of chartered accountancy in the country, said in a statement to *The Hindu* that the "Disciplinary directorate of ICAI is in receipt of complaints from office of various Registrar of Companies across the country against CA professionals for their involvement in relation to companies alleged to be linked with Chinese nationals."

"The said complaints are being processed in terms of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007. Hence, guilt, as alleged, as well as the number of Chartered Accountants alleged to be involved, is yet to be ascertained/determined after conducting detailed investigation/inquiry, so, it is premature to comment upon the same," the ICAI said.

The MCA amended the Chartered Accountants Act 1949, the Cost and Work Accountant Act 1959, and the Companies Secretary Act 1980 in April this year to bring more accountability and time-bound disciplinary action against CAs and CSs.

A response from The Institute of Company Secretaries of India (ICSI) was awaited.

Since October last, about half a dozen Chinese companies engaged in telecom, fintech and manufacturing have been raided by the Income Tax authorities over allegations of tax evasion and under-invoicing.

On June 1, the MCA amended the Companies (Appointment and Qualification of Directors) Rules, 2014 that makes it mandatory to get a security clearance from the Ministry of Home Affairs (MHA) if any individual belonging to a country that shares a boundary with India intends to become director or shareholder in an Indian company. The official said that the decision will impact Chinese companies that operate in India through subsidiaries incorporated in other

countries.

On April 18, 2020, the DIPP with an objective to curb opportunistic takeover by Chinese companies of loss-making Indian firms, notified a new rule making prior government approval mandatory for FDI from countries which share a land border with India.

As FDI is allowed in non-critical sectors through the automatic route, earlier these proposals would have been cleared without the MHA's nod.

Prior government approval or security clearance from the MHA is required for investments in critical sectors such as defence, media, telecommunication, satellites, private security agencies, civil aviation and mining and any investments from Pakistan and Bangladesh

In October, 2020 an FDI Proposal Review Committee headed by the Union Home Secretary and Secretary DIPP as member was constituted for intensive assessment of security clearances for Chinese FDI proposals.

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