PROMOTER DOMINANCE, CORPORATE ACCOUNTABILITY AND REGULATORY FAILURE: A CASE STUDY OF THE SARADHA GROUP

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Abstract

The collapse of the Saradha Group in 2013 left more than a million small depositors in eastern India without their savings. This paper argues that Saradha should be read as a systems failure rather than a case of individual fraud. Using a doctrinal method supported by a case study, it examines how promoter dominance, meaning concentrated control without effective internal checks, interacted with a fragmented regulatory structure spread across SEBI, the RBI, the Ministry of Corporate Affairs and the states. The paper distinguishes failures of legal design from failures of enforcement, and it finds both at work. It then assesses whether the Companies Act, 2013, the Securities Laws (Amendment) Act 2014 and the Banning of Unregulated Deposit Schemes Act, 2019 close the gaps the case exposed. Its conclusion is that the post-2013 reforms narrow the legal perimeter but leave the harder institutional problems, namely information-sharing, trial delay and recovery for victims, largely unresolved. The paper closes with five recommendations aimed at those problems.

Keywords: *promoter dominance; collective investment schemes; regulatory arbitrage; corporate accountability; Ponzi schemes; SEBI; Saradha*

I. Introduction

In April 2013 the owner of one of eastern India's best-known financial groups left Kolkata, and the group stopped paying its depositors. Within days its promoter, Sudipta Sen, was a fugitive. Within weeks he was in custody. What made the Saradha collapse hard to forget was its scale: over 1.7 million depositors were affected and, by one later account, roughly ₹1,900 crore remained unpaid.[1] More than a decade later, in August 2026, the Supreme Court granted bail to the same promoter in the CBI's Assam case, after he had spent nearly a decade in custody.[2]

It is tempting to file Saradha under "fraud" and move on. That label is accurate, but it only tells us who did it. It does not tell us how a group could raise money from lakhs of small investors across four states, run television channels and sponsor football clubs, and keep doing so for

[1]Anon, 'Saradha Chit Fund Scam | Supreme Court grants bail to Sudipta Sen after nearly a decade in custody' (*SCC Online Blog*, 20 August 2026) <https://www.scconline.com/blog/post/2026/08/20/sc-grants-bail-to-sudipta-sen-in-saradha-chit-fund-case/> accessed 26 October 2026. Reported figures on depositors and unpaid amounts vary across sources.

[2]*Sudipta Sen v Central Bureau of Investigation* 2026 SCC OnLine SC 1659 (decided 18 August 2026), as reported in the SCC Online Blog piece cited at n 1.

years in plain view of SEBI, the RBI, the Registrar of Companies and the state government. A fraud that large is not only a story about a fraudster. It is a story about the system around him.

This paper takes that second story seriously. Its central argument is that promoter dominance and regulatory fragmentation did not operate separately at Saradha. They fed each other. A promoter who controlled every company in the group, and faced no board or shareholder with the power to say no, could expand into exactly those spaces that the Indian regulatory map left between agencies. And a regulatory map divided among SEBI, the RBI, the Ministry of Corporate Affairs and the states gave a promoter like Sen both the room and the incentive to behave as he did.

A. Research questions

The paper asks four questions. First, how did promoter dominance shape the structure and decision-making of the Saradha Group? Second, which internal and external accountability mechanisms failed, and why? Third, were the regulatory failures failures of law (gaps in design) or failures of enforcement (gaps in implementation)? Fourth, do the reforms made after 2013 address the failures that Saradha exposed?

B. Methodology and limitations

The method is doctrinal, supported by a case study. The paper analyses the statutes and regulations in force in 2013, the judicial orders in the Saradha litigation, committee and commission reports, and the available public reporting on the group. Two limits need stating plainly. First, many of the criminal proceedings against Sen and others are still pending, so the paper treats facts as allegations unless a court has established them. Second, much of what is publicly known about the group's internal working comes from investigative reporting and agency statements rather than adjudicated findings. Where that is the case, the footnotes say so.

Part II sets out the conceptual framework. Part III describes how the group worked. Part IV analyses promoter dominance as a governance failure, and Parts V and VI map and critique the regulatory structure. Part VII asks who has actually been held to account. Part VIII evaluates the post-2013 reforms, Part IX offers a brief comparative look at Sahara, PACL and the Madoff case, and Part X offers recommendations.

II. Conceptual Framework: Promoters, Agency Costs and the Regulator

A. The promoter in Indian corporate law

Indian corporate governance has never fit comfortably into the model that most governance theory assumes. That model imagines a company with dispersed shareholders and professional managers, and the central worry is that managers will serve themselves at the expense of

owners. In India, ownership is typically concentrated. A founding family or a controlling group, usually called "the promoter", holds a dominant block, appoints most of the board, and often runs the business directly.[3] The conflict that matters most in such firms is therefore not manager against owner. It is controlling shareholder against everyone else.[4]

The Companies Act, 2013 defines a promoter functionally. The term covers a person named as such in the company's prospectus or annual return, a person who has control over the company's affairs directly or indirectly, and a person on whose advice or directions the board is accustomed to act.[5] The functional definition matters for Saradha, because the question of who actually controlled the group does not depend on who held formal office in any one of its entities.

B. Why Saradha pushes the agency problem further

Agency theory describes costs that arise when those who control a firm do not bear the full consequences of their decisions.[6] Saradha takes this to an extreme. The people harmed were not minority shareholders with voting rights and a claim to disclosure. They were depositors, mostly small savers, who held no governance rights in the group at all. They could not vote, inspect the books or call a meeting. Their only protection was whatever the law and the regulators supplied from outside. When the outside protection fails in such a setting, nothing inside the firm is left to catch the problem.

C. Regulatory capture, arbitrage and the perimeter problem

Two ideas from regulation theory help here. The first is capture: the argument that regulated industries, and the people in them, can come to shape the agencies that are meant to restrain them.[7] The second is regulatory arbitrage, where a firm organises itself so that its activities fall outside, or between, regulatory categories. Both are useful, but I use the second more heavily. The Saradha story is less one of agencies being bought outright than one of a business model designed around the seams between agencies. The paper uses "regulatory perimeter" to

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[3]Bernard S Black and Vikramaditya S Khanna, 'Can Corporate Governance Reforms Increase Firms' Market Values? Event Study Evidence from India' (2007) 4 Journal of Empirical Legal Studies 749; Afra Afsharipour, 'Corporate Governance Convergence: Lessons from the Indian Experience' (2009) 29 Northwestern Journal of International Law & Business 335.

[4]Andrei Shleifer and Robert W Vishny, 'A Survey of Corporate Governance' (1997) 52 Journal of Finance 737; Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer, 'Corporate Ownership Around the World' (1999) 54 Journal of Finance 471.

[5]Companies Act 2013, s 2(69).

[6]Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure' (1976) 3 Journal of Financial Economics 305.

[7]George J Stigler, 'The Theory of Economic Regulation' (1971) 2 Bell Journal of Economics and Management Science 3.

describe the boundary of what a given regulator can lawfully reach, and the argument is that Saradha operated in the gaps at the edges of several perimeters at once.

D. Who counts as a protected person: investors, depositors and the seams between them

One conceptual point deserves attention before turning to facts. Indian law protects people differently depending on how their money was taken. A person who buys securities is, broadly, an investor and falls under SEBI's regime. A person who places money with a company on terms of repayment is a depositor, and companies law regulates deposits separately.[8] The same individual, putting in the same ₹5,000, can fall on either side of that line depending on what the scheme calls itself. A promoter who knows this has an obvious incentive to label his product so that it sits on whichever side has the lighter supervision. That is a design problem, and it matters throughout what follows.

III. The Saradha Group: How It Worked

A. Growth and structure

The group was built around Sudipta Sen and expanded rapidly during the 2000s. It was not one company but a cluster of entities, commonly reported to number well over a hundred, spread across real estate, tourism, hospitality, agro-based ventures and media.[9] The financial engine was the collection of deposits from the public. Investors were offered high returns through instruments marketed as land, tourism or other packages, with agents reportedly earning commissions for bringing in new money. Structurally, this is the classic Ponzi pattern: returns to earlier investors depend on money brought in by later ones.

The agent network is central to understanding the scale. Commission-driven agents, often drawn from the same villages and neighbourhoods as the depositors, did the marketing. For a rural saver with little access to formal banking, the person selling the scheme was a neighbour, not a faceless institution. That kind of trust travels well and is almost impossible for a regulator to see from the outside.

B. The legitimacy strategy

The group also built a public face. It moved into Bengali media, with television channels and publications, and into sponsorship of football clubs and film projects, and it cultivated celebrities and political figures.[10] Whatever the intention behind each of those moves, the effect

[8]Companies Act 2013, s 2(31); Companies (Acceptance of Deposits) Rules 2014.

[9]Reported figures for the number of group entities vary by source.

[10]Reported associations with public figures need careful handling. On the CBI's clearing of two film actors, see 'Saradha scam: CBI clears actors Chakraborty, Sen' (*Gulf News*) <https://gulfnews.com/world/asia/india/saradha-scam-cbi-clears-actors-chakraborty-sen-1.1504640> accessed 26 October 2026. The report concerns the CBI's clearing of two film actors in connection with the group.

was to lend the group a respectability no balance sheet could have supported. An investor who sees a business sponsoring a beloved football club and owning a television channel is less likely to ask where the returns come from. In that sense, the media and sponsorship arms were not side ventures. They worked as marketing for the deposit business.

C. Collapse and investigation

The scheme could not sustain itself once inflows slowed and redemptions rose. In April 2013, Sen left West Bengal, and he was arrested in Kashmir later that month.[11] Before leaving, he is reported to have written to the CBI making allegations about payments to political figures. The letter has been widely discussed but its contents are allegations by an accused person, and should be treated that way.[12] The West Bengal government formed a Special Investigation Team and, separately, appointed a commission headed by a retired judge, Justice Shyamal Sen, to examine investor claims and recommend relief.[13]

The turning point was judicial. On 9 May 2014, in *Subrata Chattoraj v Union of India*, the Supreme Court directed that the investigation into Saradha and related chit-fund cases be transferred from the state police to the CBI, because of the inter-state character of the transactions and the need to uncover a wider conspiracy.[14] The Enforcement Directorate has also investigated the alleged money laundering.

IV. Promoter Dominance as a Governance Failure

A. Control without checks

The ordinary corporate-governance answer to a dominant promoter is a set of internal checks. There should be a board with real independence, an audit committee, scrutiny of related-party dealings, and audited disclosure. At Saradha the evidence so far suggests that none of these constraints functioned as it should. Control sat with one person and a small circle around him, and the entities in the group were run as extensions of that centre rather than as separate legal persons with separate interests.

This is where the group structure did real work. Spreading a business across many companies is not unlawful in itself. But when every company is controlled by the same person, when money moves freely between them, and when no company's board has any incentive to ask questions

[11] 'Saradha Group Sudipta Sen bail' (*Northeast Now*) <https://nenow.in/north-east-news/assam/saradha-group-scam-supreme-court-grants-bail-to-sudipta-sen-in-assam-cbi-case.html> accessed 26 October 2026 (reporting that he was arrested from Kashmir in April 2013).

[12] The letter's contents are allegations made by an accused person, not findings of any court.

[13] The Shyamal Sen Commission was set up by the Government of West Bengal in 2013 to examine investor claims and recommend relief.

[14] *Subrata Chattoraj v Union of India* (2014) 8 SCC 768 (TS Thakur and C Nagappan JJ, decided 9 May 2014). Some secondary sources print the page as 795; the Supreme Court's own later judgments cite 768.

about transfers made for the benefit of another group entity, the corporate form stops protecting anyone and starts concealing what is happening. Lenders, auditors and regulators looking at one entity at a time see only fragments.

B. Related-party dealings and diversion of funds

The central allegation of the investigating agencies is that money raised from depositors was diverted away from the purposes for which it was collected, including into other group businesses and to persons connected with the promoter.[15] In a governance sense, this is the oldest problem in the book: a controller who treats the company's funds as his own. The Companies Act, 2013 now requires board and, in some cases, shareholder approval for related-party transactions, but those safeguards presuppose a board willing and able to say no.[16] At Saradha there is no indication that any such board existed in practice.

C. Disclosure, audit and the gatekeepers

Gatekeepers such as auditors, company secretaries and bankers are supposed to be the outside checks that a dominant promoter cannot easily switch off. The Saradha case raises obvious questions about the role of the auditors and other professionals who dealt with group entities over the years. The 2013 Act places a specific duty on auditors to report suspected fraud, a duty that did not exist in this form when Saradha was growing.[17] Whether the group's auditors failed in their duties under the law as it then stood is a question for the trials and for the professional disciplinary bodies, and this paper does not assume the answer. What can be said is that fragmented group structures make the gatekeeper's job much harder, because no single auditor sees the full picture.

D. Influence as a form of protection

The final element of promoter dominance is soft power. The group's alleged proximity to people of political and social influence is a recurring theme in the litigation and in the public record. The Supreme Court itself, in directing a CBI probe, pointed to the magnitude of the fraud and its inter-state ramifications.[18] Here I am careful about the line between allegation and finding. The point for governance analysis is a structural one. Where a promoter's business depends on public trust and is surrounded by persons of public standing, the ordinary warning signals that regulators and communities rely on are muffled.

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[15]These are allegations made in the investigating agencies' filings and statements, and the paper treats them as allegations.

[16]Companies Act 2013, s 188.

[17]Companies Act 2013, s 143(12).

[18]See Anon, 'Supreme Court CBI Bengal Rajeev Kumar' (*The Wire*) <https://thewire.in/law/supreme-court-cbi-bengal-rajeev-kumar> accessed 26 October 2026 (noting that on 9 May 2014 the Court transferred the cases having regard to their magnitude, inter-state ramifications and the plight of investors).

E. Why the board did not matter

Whether the boards of the group's entities contained independent directors, or met and deliberated in any real sense, is a factual question that the chargesheets will eventually answer, and this paper does not assume the answer. The structural point is independent of it. A board is only a check if its members have both the information and the incentive to resist the controller. In a group where one person appoints every director, a board seat is a favour and not a duty, and the person who owes his seat to the promoter has little reason to question him. The legal form of a board can exist while its function is absent.

V. The Regulatory Map in 2013

To judge whether the regulators failed, we have to know what the law asked of them at the time. That map was crowded and the boundaries were not clean.

A. SEBI and collective investment schemes

SEBI's power over collective investment schemes (CIS) rests on section 11AA of the SEBI Act, 1992, inserted in 1999, and on the SEBI (Collective Investment Schemes) Regulations, 1999.[19] In outline, a scheme in which contributions are pooled, managed on behalf of investors and returns are shared falls within the definition, and no such scheme can operate without SEBI registration. The definition contained a series of exclusions, including for arrangements regulated under other laws. In practice, the boundary between what counted as a CIS and what counted as something else was contested, and promoters had every incentive to dress their schemes to look like the latter.

The Supreme Court's decision in *SEBI v Sahara India Real Estate Corporation Ltd* is the key authority on how far SEBI's remit extends over mass fundraising.[20] The Court held that the instruments in that case were securities offered to the public, and that SEBI had jurisdiction. That was an important affirmation, but it came in 2012, only a year before Saradha collapsed, and it concerned a different structure. It could not retroactively close the gaps that a group like Saradha was operating through.

B. The RBI, the Registrar of Companies and the states

The RBI's powers over deposit-taking run through the non-banking financial company framework in the Reserve Bank of India Act, 1934, which applies to entities that carry on

[19] Securities and Exchange Board of India Act 1992, s 11AA; SEBI (Collective Investment Schemes) Regulations 1999.

[20] *Securities and Exchange Board of India v Sahara India Real Estate Corporation Ltd* (2013) 1 SCC 1 (judgment dated 31 August 2012).

financial business as their principal business.[21] A group that presented its deposit-taking as the sale of land, travel packages or other goods and services could argue that it did not fall within that framework. Companies law added another layer: under the Companies Act, 1956, deposit-taking by companies was regulated, and the Registrar of Companies received filings from each registered entity.[22] But filings are filings. They tell the Registrar what each company chooses to report, and nothing in them stitches together the activities of a hundred related entities.

The states had their own tools. Chit funds fall under the Chit Funds Act, 1982, administered by the states, and the Prize Chits and Money Circulation Schemes (Banning) Act, 1978 bans a category of schemes outright.[23] West Bengal passed the West Bengal Protection of Interests of Depositors (in Financial Establishments) Act in 2013, after the collapse.[24] The timing of that state law says something. It was passed after the harm, not before.

C. The consequence: a perimeter with holes

Table 1: Regulatory perimeters in 2013 (author's summary)

Body	Source of power	What it could reach	Gap a promoter could use
SEBI	SEBI Act 1992, s 11AA; CIS Regulations 1999	Unregistered pooled-money schemes meeting the CIS definition	Contested definition; limited attachment and search powers before 2014
RBI	RBI Act 1934, Ch IIIB	Entities whose principal business is financial and which take deposits	Schemes dressed up as sales of land, travel or other goods
MCA / Registrar of Companies	Companies Act 1956, s 58A and rules	Each registered company, entity by entity	No group-level view; filings are self-reported
State governments	Chit Funds Act 1982; Prize Chits Act 1978; state police	Chit funds, banned schemes and local policing	Capacity and coordination; state depositor-protection law came only in 2013

The upshot of this overlapping structure is that no single body had the job of looking at a pooled-money scheme as a whole and asking whether the public was at risk. Each regulator could say, with some legal basis, that the activity sat mainly in someone else's domain. That is the structural condition under which a promoter-controlled group can thrive.

VI. Regulatory Failure: Design and Implementation

It helps to separate two kinds of failure that are often run together in public debate. A design failure is where the law itself leaves a gap, so that even a diligent regulator cannot act. An

[21]Reserve Bank of India Act 1934, ch IIIB.

[22]Companies Act 1956, s 58A; Companies (Acceptance of Deposits) Rules 1975.

[23]Chit Funds Act 1982; Prize Chits and Money Circulation Schemes (Banning) Act 1978.

[24]West Bengal Protection of Interests of Depositors (in Financial Establishments) Act 2013.

implementation failure is where the law gives the power but the agency does not use it, or uses it too late. Saradha exposed both.

A. Design failures

The first design failure was the absence of a single owner for pooled-money schemes. The gap between SEBI's CIS jurisdiction, the RBI's deposit-taking jurisdiction and state chit-fund law left grey areas, and the same facts could be argued to belong to any of them. Official reviews of Indian financial regulation, including the work of the Financial Sector Legislative Reforms Commission, addressed the same problem of fragmented oversight.[25]

The second was weak enforcement tooling. Before the Securities Laws (Amendment) Act 2014, SEBI's powers against unregistered CIS operators were limited in important ways, particularly when it came to attachment of assets and search and seizure. The amendment that followed Saradha is itself the best evidence that the earlier powers were not adequate.[26]

B. Implementation failures

The second kind of failure is harder to prove from outside, but it is the one that most obviously concerns accountability. Some public reporting suggests that concerns about Saradha's activities had reached regulators and state authorities well before the collapse, including through complaints and regulatory correspondence.[27] If that is right, the question is not whether the information existed. It is why no agency turned it into action quickly enough, and why no mechanism forced the agencies to talk to each other.

Two features of the institutional picture deserve emphasis. First, there was no systematic information-sharing between regulators, so a warning in one agency's files stayed there. Second, state-level policing and enforcement lacked either the capacity or the inclination to deal with a scheme of this reach. The Supreme Court's decision to hand the investigation to the CBI, is a judicial verdict on that question.[28]

C. The link back to promoter dominance

This is where the paper's central argument comes together. A dominant promoter is, in effect, a regulatory-arbitrage specialist, because he knows his own structure better than any outside

[25]Financial Sector Legislative Reforms Commission, *Report of the Financial Sector Legislative Reforms Commission* (Ministry of Finance, March 2013). See also Planning Commission, *A Hundred Small Steps: Report of the Committee on Financial Sector Reforms* (2009), the Rajan Committee report.

[26]Securities Laws (Amendment) Act 2014 (Act 27 of 2014), amending the SEBI Act 1992, the Securities Contracts (Regulation) Act 1956 and the Depositories Act 1996. For the changes to s 11AA and the new search, seizure and Special Court provisions (ss 26A–26E), see Mubashshir Sarshar, 'The Securities Laws (Amendment) Act, 2014 – A Critical Analysis' (*IndiaCorpLaw*, 7 September 2014) <https://indiacorplaw.in/2014/09/07/the-securities-laws-amendment-act-2014/> accessed 26 October 2026.

[27]These accounts come from press reporting and are not adjudicated findings.

[28]*Subrata Chattoraj* (n 14).

agency does. He can design instruments and entities so that each regulator sees a piece that looks compliant. When the legal map is fragmented, that skill is worth a great deal. The promoter's control over every entity in the group is exactly what allows him to arrange the pieces. And the regulators' fragmentation is exactly what allows the arrangement to work. Neither failure alone explains Saradha. Together they do.

D. The courts as a late-stage regulator

The Supreme Court's role in the Saradha story deserves its own comment. When the Court transferred the investigation to the CBI, it was acting where the ordinary machinery had not delivered. The same pattern appears in *Sahara*, where the Court ended up supervising refunds, and in the PACL matter, where it appointed a retired judge's committee to run asset sales. Courts stepping in can look like the system working. I read it differently. A judiciary that repeatedly has to manage investigations and refunds directly is a sign that the primary regulators are not doing that work, and courts are poorly suited to do it on a continuing basis. They lack permanent staff, specialist supervisory capacity and the ability to act before the damage is done. A regulatory system that depends on the Supreme Court to rescue it after each collapse has an obvious design problem.

VII. Accountability: Who Has Answered, and When

A. The promoter and the criminal process

Accountability in the criminal law sense has been slow. Sen has been in custody for years across multiple proceedings, but the recent Supreme Court bail order, granted after nearly a decade in custody, illustrates a different problem.[29] Prolonged pre-trial detention is a serious matter, and it raises questions of its own about the right to a speedy trial. But the other side of that coin is that more than thirteen years after the collapse, the justice system has not delivered a final answer on the central question of criminal liability, at least in the proceedings the public record shows.

This paper does not argue that Sen should have remained in custody. The argument is narrower. Delay damages accountability from both directions: it prolongs the detention of accused persons and postpones the verdict that depositors and the public are waiting for. A system that does neither quickly cannot claim to have held anyone accountable in any meaningful sense.

[29] *Sudipta Sen v CBI* (n 2); see also Anon, 'Supreme Court Grants Bail To Sudipta Sen In CBI Case After Nearly 10 Years Custody' (*LiveLaw*, 18 August 2026) <https://www.livelaw.in/news-updates/supreme-court-grants-bail-to-sudipta-sen-director-of-saradha-group-in-chit-funds-case-546319> accessed 26 October 2026.

B. Intermediaries, politicians and the wider network

Criminal proceedings have also reached beyond the promoter. Politicians, officials and others have reportedly been questioned or arrested at different points in the long investigation, and the agencies have publicly cleared some individuals who were linked in the public mind to the group.[30] That latter point is worth remembering. Accountability is not meant to follow public suspicion. It is meant to follow evidence. The measure of an effective system is that it can sort one from the other in reasonable time.

The professional gatekeepers and the regulators themselves are the harder category. I have not come across public reporting of any regulatory official facing sanctions for the supervisory failures that Saradha exposed. If that is so, it is a gap in the accountability picture, because a regime that holds private actors liable and leaves public supervisors untouched creates weak incentives for the future.

C. Recovery and compensation

For depositors, the most important form of accountability is getting their money back. The recovery picture is the least clear part of the public record. A relief commission and fund were announced by West Bengal soon after the collapse, and central agencies have attached assets, but, on the public information available, the amounts recovered and distributed appear small against the money lost, and the process has been slow. The 2019 legislation discussed below is designed in part to make the attachment and distribution of assets faster, but it applies prospectively to the schemes it covers.

D. Deterrence, speed and certainty

Accountability also has a forward-looking purpose, which is deterrence. The economics of crime suggests that the likelihood and speed of punishment shape behaviour at least as much as its severity.[31] If a promoter running a large pooled-money scheme expects that detection will be late, that prosecution will take over a decade and that most of the money will be hard to trace, the stiffness of the statutory penalty matters much less. The Saradha timeline therefore carries a message to future promoters, and it is not the message the law intends to send.

VIII. Post-Saradha Reforms and Their Adequacy

A. The Companies Act, 2013

The Companies Act, 2013 was passed in the year of the collapse, and it carries several provisions that speak to the problems Saradha raised. It restates the rules on acceptance of

[30] See *Gulf News* (n 10) (on the CBI's clearing of two public figures).

[31] Gary S Becker, 'Crime and Punishment: An Economic Approach' (1968) 76 Journal of Political Economy 169.

deposits and adds a penal provision for contravention.[32] It creates an offence of fraud with substantial punishment,[33] gives the Serious Fraud Investigation Office statutory status,[34] requires independent directors on boards of listed and certain other companies,[35] and tightens the rules on related-party transactions and on auditors' duty to report fraud.[36] On paper this is a stronger set of internal and external checks.

But these provisions have a reach problem. They bind companies that operate within the formal corporate framework. Saradha's model shows what happens when a promoter builds an enterprise that depends less on listing, disclosure or board oversight, and more on private, direct sales through a distributed agent network. The provisions improve the position of regulated companies. They are less obviously effective against unregulated deposit-takers.

B. SEBI's expanded powers

The Securities Laws (Amendment) Act 2014 strengthened SEBI's hand against unregistered CIS operators. Among other things, it gave SEBI greater powers of attachment and investigation, and it provided that pooling schemes of ₹100 crore or more that are not registered are deemed to be collective investment schemes.[37] This closes part of the perimeter gap. The deemed-CIS threshold does leave a question about smaller schemes, which can still do real harm to local communities even when they sit below the threshold.

C. The BUDS Act, 2019

The Banning of Unregulated Deposit Schemes Act, 2019 is the most direct legislative answer to Saradha. It bans unregulated deposit schemes, creates a mechanism for designated authorities to attach property and for special courts to try offences, and establishes a central database of deposit takers.[38] In design terms, it gives the system a single statutory home for a problem that earlier fell between regulators. That is its real contribution.

Its weakness lies elsewhere. A statute that bans something does not by itself detect it. The effectiveness of the Act depends on whether the authorities actually populate the database, monitor deposit-taking in practice, and bring prosecutions quickly. It is also worth asking whether a regime built to react to schemes after they collapse can keep up with a promoter who changes the structure of a scheme faster than the law can name it.

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[32]Companies Act 2013, ss 73–76 and s 76A (the latter inserted by the Companies (Amendment) Act 2017).

[33]Companies Act 2013, s 447.

[34]Companies Act 2013, s 211.

[35]Companies Act 2013, s 149.

[36]Companies Act 2013, ss 188 and 143(12).

[37]Securities Laws (Amendment) Act 2014, inserting a proviso to s 11AA(1) (pooling of ₹100 crore or more, not registered with SEBI or covered by s 11AA(3), is deemed a CIS) and a new s 11AA(2A); see Sarshar (n 26).

[38]Banning of Unregulated Deposit Schemes Act 2019.

D. What remains unfixed

Three gaps remain. First, enforcement capacity. Laws are only as good as the agencies that apply them, and the Saradha litigation itself shows how slowly the machinery moves. Second, coordination. Statutes can create bodies, but they cannot ensure that those bodies share information early and act on it. Third, trial delay. Even the best-designed regime loses its deterrent effect if a promoter can expect a decade of litigation before a final verdict. These are institutional problems, and rewriting statutes does not solve them on its own.

E. Would the reforms have stopped Saradha?

A useful way to test the reforms is to ask a counterfactual: if the Saradha model appeared today, would the current framework catch it? In part, yes. The BUDS Act gives a clear legal basis to treat the scheme as banned from the start, so the argument that it belongs to someone else's jurisdiction weakens considerably. The deemed-CIS threshold gives SEBI a firmer basis for acting against large unregistered pools. The statutory fraud offence and the SFIO's powers give investigators better tools after the fact.

But the same scheme could also reappear in a modified form. The key weakness of Saradha was not that the law forbade nothing. It was that detection depended on regulators noticing a pattern across agencies and then acting quickly. Neither the 2013 Act nor the 2019 Act creates a duty on regulators to share information or sets a deadline for acting on a warning. The statutes have narrowed the room for legal argument. They have not clearly narrowed the room for institutional delay. On that measure, I would say the reforms are better described as necessary than as sufficient.

IX. A Comparative Glance: Sahara, PACL and Madoff

The Saradha pattern is not unique, and a short comparison shows what is distinctive and what is common. In India, the Sahara litigation concerned mass fundraising through instruments that the promoter argued fell outside SEBI's remit, and it ended with the Supreme Court holding that SEBI did have jurisdiction.[39] The PACL case followed a similar logic, with a land-based scheme that raised enormous sums from the public, and it led to the Supreme Court appointing a committee headed by a retired judge to oversee the sale of assets and the refund of investors.[40] The common thread is a promoter-led model, mass retail fundraising, and a regulatory question about which agency had jurisdiction.

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[39] *Sahara* (n 20).

[40] SEBI's proceedings against PACL Ltd and the Supreme Court's later order appointing a committee headed by Justice RM Lodha (retd), a former Chief Justice of India, to oversee asset sales and refunds.

Outside India, the Madoff case offers a useful contrast. The SEC's own Inspector General examined why the agency failed to uncover the fraud despite repeated warnings, and concluded that the problem lay in how the agency used the information it had rather than in a lack of it.[41] That is close to the implementation-failure point made above. The lesson is that having regulators is not enough. A regulator that gathers warnings but does not act on them provides little protection. India's version of the problem is complicated further by the division of tasks among several agencies.

X. Recommendations

The analysis points to five practical recommendations.

First, the regulatory perimeter should have a clear owner. Whatever the final institutional design, a pooled-money scheme should not be able to argue that it belongs to someone else. That could be done through a lead-regulator rule, or through a formal mechanism that assigns jurisdiction at the earliest point of doubt and requires the designated authority to act.

Second, regulators should share information as a matter of duty. The experience of Saradha suggests that a warning in one file is only useful if it reaches the agency that can act. A statutory framework for early-warning data sharing among SEBI, the RBI, the MCA and state authorities, with a requirement that flagged cases receive a written response within a fixed period, would address the gap.

Third, trials in mass-fraud cases need dedicated capacity. Special courts already exist under several statutes, but the Saradha timeline shows that special status does not guarantee speed. Time-bound trial schedules, with periodic reporting to the High Court, and mechanisms to prevent repeated procedural delay would serve both accused persons and victims.

Fourth, recovery should be built into the process from the start. Asset attachment, valuation and distribution should be treated as part of the case, not as an afterthought, with regular public reporting on the amounts attached, recovered and paid out to depositors.

Fifth, the accountability of gatekeepers and supervisors should be examined as part of the post-mortem of every major collapse. That means professional bodies acting promptly on audit failures, and regulators publishing, to the extent consistent with law, the results of internal reviews of supervisory lapses.

[41]US Securities and Exchange Commission Office of Inspector General, *Investigation of Failure of the SEC to Uncover Bernard Madoff's Ponzi Scheme* (Report No OIG-509, 31 August 2009).

XI. Conclusion

Saradha is often described as a story of greed and deception. It was, but that description is incomplete. This paper has argued that the Saradha collapse is better understood as the product of two connected failures. Inside the group, a dominant promoter faced no effective internal check. Outside it, a fragmented regulatory structure left gaps that a promoter with full knowledge of his own structure could use.

The post-2013 reforms have done real work in narrowing those gaps. The Companies Act, 2013, the Securities Laws (Amendment) Act 2014 and the BUDS Act, 2019 each respond to part of what Saradha revealed. But the harder problems are institutional rather than statutory. They concern how quickly agencies talk to each other, how quickly courts hear cases, and how quickly money gets back to the people who lost it.

The test of the system is not whether it can name the next scheme. It is whether it can recognise the pattern early enough to act. At the moment, on the evidence of the Saradha litigation, we do not yet have a convincing answer to that.