Rose Valley Scam Explained

Why in news?

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Arresting of two Trinamool Congress MPs have put the focus back on ponzi scams that rocked West Bengal in 2013-14. Both MPs were arrested by CBI in Kolkata in the Rose Valley case.

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What is a Ponzi scheme?

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- A Ponzi scheme is an investment fraud where clients are promised a large profit at little to no risk.
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- Companies that engage in a Ponzi scheme focus all of their energy into attracting new clients to make investments.
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- Ponzi schemes **rely on a constant flow of new investments** to continue to provide returns to older investors.
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- When this flow runs out, the scheme falls apart. There is **no actual effective revenue generation.**
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What was the Rose Valley Holiday Membership Plan?

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- Rose Valley was set up in the 1990s.
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- It had floated a holiday membership in 2010.

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- The investors were given the choice of opting for a holiday package or "a return on the investment with annualised interest".
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- Interestingly, unlike Saradha, the Rose Valley was not a defaulter in Bengal. It was paying interest to its depositors.
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- But after the Saradha scam, the Supreme Court to probe all the companies involved in raising funds from small depositors.
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- Hence the Rose Valley Group was investigated.
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What was the scam?

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- The Rose Valley Group has been **accused of duping investors of about Rs 17,000 crores in different states.**
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- The money was primarily accumulated by raising small investments in the rural areas of at least half a dozen States.
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- SEBI found that the company offered plans with interest rates ranging from 11.2% to 17.65%.
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- The subscription couldn’t be cancelled, and the investor could not get his money back before the end of the tenure.
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- In July 2013, an investigation revealed suspicious expenditure in the profit and loss accounts of group companies.
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- The assessment of balance sheet revealed poor performance by the company and leakage of cash.
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- It also revealed erratic “miscellaneous expenditures” with an almost nine-fold increase in losses.
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- The company also gave loans and advances amounting to Rs 596 crore during the year, much of it were given to its holding company, and the rest to its promoter Gautam Kundu.
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- Therefore **SEBI** found out that the company **did not follow due**

procedures.
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- The organisation also allegedly violated **guidelines of the Reserve Bank of India and other related financial fraud control acts**, meant to regulate such companies raising small investments.
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- A CBI release said on Tuesday that the case was registered in June 2014 for cheating, breach of trust, criminal breach by public servant, criminal conspiracy, and various sections of Prize Chits & Money Circulation Schemes (Banning) Act, 1978.
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- Both Rose Valley and Saradha Scams are being investigated by the CBI and ED separately.
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