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Preventing Financial Crimes in India: A Study on the Role of Corporate Governance

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ABSTRACT

The increasing frequency and magnitude of financial crimes in India have raised serious concerns regarding corporate accountability, investor confidence, and the integrity of the financial system. This study critically examines the role of corporate governance in the prevention and mitigation of financial crimes within the Indian corporate landscape. By analysing landmark corporate fraud cases such as Satyam, IL&FS, and Yes Bank, this research underscores the systemic failures in internal controls, board oversight, and regulatory compliance. The study delves into the legal and institutional framework governing corporate governance in India, including the Companies Act, 2013, SEBI (LODR) Regulations, and key provisions under the Prevention of Money Laundering Act, 2002. It evaluates the effectiveness of regulatory bodies such as SEBI, RBI, and the Serious Fraud Investigation Office (SFIO) in ensuring compliance and enforcing accountability. Through a comparative perspective with international governance standards (such as OECD Principles and the Sarbanes-Oxley Act), the research identifies gaps in India's corporate governance practices, particularly in areas such as whistleblower protection, board independence, audit transparency, and risk management. Using a mixed-methods approach, including interviews with compliance officers and forensic experts, as well as content analysis of audit reports and enforcement actions, the study proposes a framework for strengthening corporate governance as a deterrent against financial misconduct. The research concludes that robust, ethical, and transparent

governance mechanisms are not merely compliance tools but strategic imperatives to prevent financial crimes, protect stakeholders, and foster long-term corporate sustainability in India's rapidly evolving economic environment.

KEYWORDS

Corporate, Governance, Compliance, Fraud, Regulation

I. INTRODUCTION

Financial crimes in India have escalated significantly over the past decade. The economic liberalization of the 1990s transformed India's business landscape dramatically. Corporate entities expanded rapidly across diverse sectors. This expansion brought opportunities but also created vulnerabilities in the financial system. Weak regulatory oversight failed to keep pace with sophisticated criminal tactics. Financial crimes eroded public trust in financial institutions and damaged India's economic fabric.¹

The Reserve Bank of India reported bank frauds amounting to more than 139.3 billion Indian rupees in financial year 2024. Though this marks a decrease from over 302 billion rupees in 2023, the long-term trend remains concerning. The number of reported bank fraud cases increased to more than 13 thousand in 2024. These statistics highlight the persistent challenge of financial crimes despite regulatory efforts. Corporate governance weaknesses often facilitate these frauds through inadequate internal controls. Poor risk management enables criminal exploitation of systemic vulnerabilities.²

India established the Financial Intelligence Unit-India (FIU-IND) in November 2004 as the central agency for combating money laundering and terrorist financing. This agency processes information related to suspicious financial transactions. It coordinates efforts between national and international intelligence agencies. The Prevention of Money Laundering Act, 2002 (PMLA) provides the legal framework for prosecuting money laundering activities. The Act undergoes periodic amendments to strengthen its effectiveness against evolving criminal tactics. These

¹ Indiaforensic, "Overview of Financial Crimes in Banking Sector of India," July 2, 2021, <https://indiaforensic.com/overview-of-financial-crimes-in-banking-sector-of-india/>

² Reserve Bank of India, "Number of bank fraud cases across India between from financial year 2009 to 2024," Statista, June 3, 2024, <https://www.statista.com/statistics/1012729/india-number-of-bank-fraud-cases/>

mechanisms represent India's institutional response to financial crimes through specialized regulatory bodies.³

Corporate governance failures contributed significantly to major financial scandals. The Satyam scandal of 2009 revealed manipulated accounts worth approximately \$1.47 billion. The Punjab National Bank fraud of 2018 involved fraudulent letters of undertaking worth over \$1.8 billion. These cases exposed fundamental weaknesses in oversight mechanisms. They demonstrated how inadequate board supervision creates opportunities for massive financial crimes. Regulatory authorities responded by strengthening corporate governance requirements for listed companies. The Securities and Exchange Board of India (SEBI) introduced stricter disclosure norms through amendments to Clause 49.⁴

The interconnection between corporate governance and financial crime prevention remains underexplored in the Indian context. Effective governance structures potentially serve as the first line of defense against financial crimes. Independent directors, audit committees, and whistleblower mechanisms can detect fraudulent activities early. Organizations with robust governance practices demonstrate greater resilience against criminal exploitation. This relationship demands further academic and policy attention to develop more effective preventive measures. Understanding the correlation between governance standards and fraud incidence provides valuable insights for regulatory improvements.⁵

II. UNDERSTANDING FINANCIAL CRIMES IN THE CORPORATE CONTEXT

Financial crimes in the corporate sector manifest in various sophisticated forms. Corporate fraud stands as the most prevalent type in India. It involves deliberate deception to gain unfair advantage. Financial statement manipulation remains a common method adopted by unscrupulous corporate entities. Executives overstate revenues or underreport liabilities to project better financial health. This misrepresentation misleads investors and creditors about company performance.

Insider trading constitutes another pervasive financial crime

³ Financial Intelligence Unit - India, "About FIU-IND," Ministry of Finance, Government of India, <https://fiuindia.gov.in/>

⁴ Securities and Exchange Board of India, "Corporate Governance in India," SEBI, 2020, https://www.sebi.gov.in/legal/circulars/feb-2000/corporate-governance_17930.html

⁵ Deloitte, "Governance Guide: Risk Management Essentials," 2022, <https://www2.deloitte.com/in/en/pages/risk/articles/governance-101.html>

within Indian corporations. Corporate insiders exploit confidential information for personal gains. Directors, executives or majority shareholders trade securities based on unpublished price-sensitive information. This violates the principle of fair market operation and equity. SEBI regulations explicitly prohibit such activities under the SEBI Act. The regulatory framework imposes severe penalties including imprisonment up to ten years. Despite stringent regulations, detection remains challenging due to sophisticated concealment techniques.⁶

Money laundering represents a significant threat to financial integrity. Corporations sometimes function as vehicles to legitimize illicit funds. The process typically involves three stages: placement, layering and integration. First, illegal money enters the financial system. Then it undergoes complex transactions to obscure origins. Finally, it returns to the economy as seemingly legitimate funds. The Prevention of Money Laundering Act, 2002 established the legal framework to combat this crime. The Financial Intelligence Unit-India monitors suspicious transactions across banking networks. Corporate entities must implement robust KYC procedures to prevent misuse.⁷

Asset misappropriation impacts corporations through direct financial losses. This occurs when employees or executives steal company resources. Methods include embezzlement, procurement fraud, payroll fraud and expense reimbursement schemes. The PNB fraud case demonstrated this when bank employees issued fraudulent letters of undertaking. Nearly ₹12,000 crore worth of LOUs were issued without proper authorization or record. High-value banking instruments bypassed standard verification protocols.

Market manipulation distorts securities pricing through artificial means. Corporations sometimes engage in practices like pump-and-dump schemes. They artificially inflate stock values through misleading statements. Then insiders sell their shares before prices collapse. The Ketan Parekh scam illustrated manipulation of certain stocks known as K-10 securities. Price rigging damages market integrity and investor confidence. Recent amendments to securities laws have strengthened SEBI's enforcement powers. Technological surveillance systems now monitor unusual trading

⁶ Securities and Exchange Board of India, "The SEBI Act prohibits insider trading," ICLG Business Crime Laws and Regulations Report 2025 India, October 16, 2024, <https://iclg.com/practice-areas/business-crime-laws-and-regulations/india>.

⁷ Financial Intelligence Unit-India, "Financial Intelligence Unit – India (FIU-IND) was set by the Government of India vide O.M. dated 18th November 2004," Ministry of Finance, Government of India, <https://fiuindia.gov.in/>.

patterns across exchanges.⁸

Cybercrime increasingly targets corporate financial systems. Hackers breach secure networks to steal sensitive financial data. Phishing attacks compromise executive credentials to authorize fraudulent transfers. Ransomware attacks hold corporate data hostage until payments are made. Digital fraud presents unique challenges due to its borderless nature. Corporate cybersecurity requires constant updating against evolving threats. Recent regulations mandate stronger data protection protocols. The Information Technology Act provides some framework for prosecution. But technological advancement often outpaces regulatory responses.⁹

III. KEY REGULATORY CHALLENGES IN DETECTION AND PREVENTION

Regulatory fragmentation creates significant hurdles in addressing financial crimes. Multiple agencies oversee different aspects of corporate regulation. The RBI regulates banking operations while SEBI oversees securities markets. The Enforcement Directorate handles money laundering cases. The Serious Fraud Investigation Office addresses complex corporate frauds. This fragmented approach creates jurisdictional overlaps and regulatory gaps. Information sharing between these agencies remains inadequate despite formal channels. The Sahara case exemplified issues when both MCA and SEBI claimed jurisdiction. The Supreme Court ultimately clarified SEBI's authority over certain financial instruments.¹⁰

Technology limitations hamper effective monitoring of sophisticated financial crimes. Legacy systems in regulatory bodies struggle to keep pace with digital innovation. Real-time transaction monitoring requires advanced data analytics capabilities. Most Indian regulators operate with outdated technological infrastructure. The volume of financial data generated daily overwhelms manual review processes. Artificial intelligence and machine learning adoption remains in early

⁸ "Ketan Parekh, a stockbroker, manipulated the stock prices of certain companies (now known as K-10 stocks)," 5paisa, October 13, 2024, <https://www.5paisa.com/finschool/financial-scams-why-investors-need-to-be-vigilant/>.

⁹ FBI, "The FBI works with partners to investigate mortgage and financial institution fraud cases," Federal Bureau of Investigation, May 10, 2024, <https://www.fbi.gov/investigate/white-collar-crime>.

¹⁰ "This landmark Judgment is undoubtedly a milestone in India's Corporate landscape," Mondaq, <https://www.mondaq.com/india/shareholders/203796/sahara-vs-sebi-an-in-depth-analysis-of-the-landmark-supreme-court-ruling>.

stages. This creates a significant disadvantage against tech-savvy criminal operations. Cross-border transactions add another layer of complexity to monitoring efforts. Regulatory technology (RegTech) solutions have emerged but face implementation challenges.¹¹

Expertise gaps affect investigation quality within regulatory agencies. Financial crimes grow increasingly complex through sophisticated structuring. Investigators require specialized knowledge in accounting, finance, and technology. Most regulatory bodies face shortages of qualified forensic experts. Staff recruitment and retention problems persist due to compensation disparities. Private sector opportunities attract talent away from regulatory roles. Training programs often fail to keep pace with evolving criminal methodologies. This expertise gap significantly impacts case preparation and successful prosecution. Knowledge of international financial systems becomes crucial for tracking illicit fund flows.¹²

Enforcement challenges persist despite strong legislative frameworks. Securing convictions for financial crimes remains difficult in Indian courts. Procedural delays in the judicial system extend case resolution for years. The PMLA conviction rate stands at less than 0.5% despite thousands of registered cases. Corporate entities often use legal resources to challenge regulatory actions. Interim judicial orders sometimes hamper ongoing investigations. Prosecution struggles with gathering admissible evidence meeting criminal standards. The burden of proof remains high while corporate veils provide defensive layers.

Cross-border jurisdiction issues complicate financial crime investigations. Corporate structures often span multiple countries with varying regulations. Shell companies in tax havens obscure beneficial ownership information. Mutual Legal Assistance Treaties work slowly for evidence collection abroad. Extradition challenges arise when accused persons flee Indian jurisdiction. International cooperation frameworks exist but operational implementation remains weak. Regulatory differences across countries create arbitrage opportunities for wrongdoers. Digital transactions easily cross borders while enforcement remains territorially constrained. Recent economic offenders legislation attempts to address these challenges. However, practical recovery

¹¹ KPMG, "Financial institutions face challenges to enhance financial crimes prevention and detection capabilities," KPMG US, January 8, 2021, <https://kpmg.com/us/en/articles/2020/ten-key-fs-challenges-2021-fraud-financial-crimes.html>.

¹² Drishti IAS, "India's financial regulators are facing unprecedented scrutiny," Drishti IAS, <https://www.drishtiias.com/daily-updates/daily-news-editorials/reforming-indias-financial-watchdogs>.

of assets from foreign jurisdictions continues to face hurdles.¹³

Corporate governance weaknesses exacerbate regulatory challenges. Independent directors often fail to exercise effective oversight. Audit committees sometimes lack the necessary expertise or independence. Whistleblower protection mechanisms remain inadequate in practice. Internal controls frequently reveal design flaws or implementation gaps. Risk management frameworks focus on compliance rather than substantive protection. Related party transactions receive insufficient scrutiny from governance bodies. Complex corporate structures obscure accountability trails for investigators. Regulatory requirements for governance remain predominantly form-driven rather than substance-oriented. Recent corporate governance reforms attempt to address these deficiencies through stricter independence requirements.¹⁴

IV. RECENT HIGH-PROFILE CASES IN INDIA (E.G., SATYAM, IL&FS, PMC BANK)

The Satyam scandal shocked India's corporate landscape in 2009. Ramalinga Raju, founder and chairman, admitted to inflating company accounts by \$1.4 billion. The fraud involved systematic falsification of financial statements over many years. Fake invoices were created to inflate revenue figures and show non-existent cash reserves. Company's books reflected 7,000 crore rupees in assets that didn't actually exist. The scandal earned nickname "India's Enron" due to its profound impact on investor confidence.¹⁵

Ramalinga Raju eventually confessed to his crimes in a letter to SEBI. This unprecedented admission triggered immediate regulatory action by multiple agencies. Investigators discovered the company had been creating forged bank statements for years. Fake bank confirmations helped conceal the massive accounting fraud from auditors.

The Central Bureau of Investigation led a thorough investigation

¹³ "India-briefing.com, "India recently made changes to its AML law to expand the scope of reporting entities," India Briefing, October 11, 2023, <https://www.india-briefing.com/news/india-prevention-of-money-laundering-rules-2023-key-provisions-new-reporting-obligations-27347.html/>.

¹⁴ PwC, "Economic crimes are increasingly disrupting businesses in India, with 59 per cent of organisations experiencing financial or economic fraud," Business Standard, December 18, 2024, https://www.business-standard.com/economy/news/financial-fraud-up-as-59-of-indian-firms-faced-crimes-in-past-two-years-124121800678_1.html.

¹⁵ "The Satyam scandal was a large-scale accounting fraud of over Rs. 7,800 crores," Trade Brains, July 12, 2024, <https://tradebrains.in/satyam-scam/>

into Satyam's affairs. Nine senior officials, including Ramalinga Raju, were found guilty of serious financial crimes. In April 2015, they received seven-year prison sentences from a special CBI court. The government appointed a new board to stabilize the company after the scandal. Tech Mahindra eventually acquired Satyam in 2009 to prevent complete collapse. The scandal led to significant corporate governance reforms throughout India's regulatory framework.

The Infrastructure Leasing & Financial Services (IL&FS) crisis emerged in 2018. The company defaulted on payments due to severe liquidity problems. The conglomerate held outstanding debt of approximately 91,000 crore rupees. IL&FS took on excessive debt to fund numerous infrastructure projects across India. The company's complex structure of over 250 subsidiaries obscured its true financial condition. This opacity prevented timely regulatory intervention despite growing financial distress.¹⁶

Government acted swiftly to replace IL&FS board when the crisis unfolded. The Serious Fraud Investigation Office (SFIO) uncovered significant financial irregularities. Auditors Deloitte Haskins & Sells and BSR Associates faced legal action. The SFIO alleged these firms had failed to flag obvious financial misconduct. The investigation revealed deliberate efforts to conceal the company's precarious position. Rating agencies also received criticism for maintaining high ratings despite warning signs. The case highlighted serious deficiencies in India's financial oversight mechanisms.¹⁷

The Supreme Court allowed authorities to reopen and recast IL&FS accounts. The NCLT was given permission to act against IL&FS auditors for their role. The fraud significantly impacted ongoing infrastructure projects nationwide. Banks became reluctant to finance similar initiatives after the IL&FS debacle. The crisis triggered widespread panic across India's non-banking financial sector. Some estimates suggest the total fraud may have amounted to 9,900 crore rupees. Recovery efforts continue with asset sales to settle outstanding debts.¹⁸

The Punjab and Maharashtra Cooperative Bank (PMC) fraud case

¹⁶ "Infrastructure Leasing & Financial Services Ltd (IL&FS) is a systemically significant Core Investment Company," Bar and Bench, July 21, 2019, <https://www.barandbench.com/columns/ilfs-insolvency-the-journey-so-far>

¹⁷ "On May 30, SFIO submitted a chargesheet against 30 parties, including two auditor firms," Bar and Bench, July 21, 2019, <https://www.barandbench.com/columns/ilfs-insolvency-the-journey-so-far>

¹⁸ "On June 4, the Supreme Court allowed the SFIO to reopen and recast accounts of IL&FS," Bar and Bench, July 21, 2019, <https://www.barandbench.com/columns/ilfs-insolvency-the-journey-so-far>

erupted in 2019. The bank's managing director Joy Thomas admitted to concealing bad loans worth 6,500 crore rupees. Housing Development and Infrastructure Limited (HDIL) was the primary beneficiary of these hidden loans. HDIL's exposure constituted approximately 73% of PMC's total loan book. This concentration violate RBI norms restricting exposure to a single entity. Bank officials created over 21,000 fictitious accounts to distribute and hide these loans.¹⁹

The Reserve Bank of India placed severe restrictions on PMC Bank's operations. Initially, depositors could withdraw only 1,000 rupees over a six-month period. This limit was gradually increased due to public pressure and hardship cases. The Economic Offences Wing arrested several key figures including Thomas and HDIL promoters. Investigators discovered bank officials had deliberately misled RBI inspectors for years. Auditors failed to conduct basic verification procedures like confirming bank balances. The fraud exposed serious weaknesses in RBI's supervisory framework for cooperative banks.²⁰

The PMC Bank case tragically led to several depositor deaths. Despondent customers with frozen life savings suffered severe financial distress. Some depositors were unable to access funds for urgent medical treatments. The Enforcement Directorate seized HDIL assets worth approximately 3,800 crore rupees. The Bombay High Court formed a committee to expedite recovery from HDIL properties. This case highlighted the vulnerability of depositors in cooperative banking institutions. It exposed the limitations of deposit insurance and regulatory protection in India's banking system.²¹

These three cases represent systemic failure of corporate governance mechanisms. They share common elements of regulatory oversight lapses and auditor negligence. Complex corporate structures were exploited to conceal financial irregularities. Information asymmetry prevented stakeholders from making informed decisions. The cases demonstrate that even established companies can perpetrate sophisticated financial deception. They resulted in significant regulatory reforms aimed at strengthening corporate governance. The financial and human

¹⁹ "Punjab and Maharashtra Co-operative Bank (PMC) used more than 21,000 fictitious accounts to hide loans," Reuters, October 1, 2019, <https://www.reuters.com/article/us-india-banking-pmc-idUSKBN1WG43V/>

²⁰ "The RBI has barred the bank from renewing or granting any loans or making investments," Reuters, October 1, 2019, <https://www.reuters.com/article/us-india-banking-pmc-idUSKBN1WG43V/>

²¹ "As an immediate consequence, all core activities of the bank came to a halt," SAGE Journals, 2024, <https://journals.sagepub.com/doi/full/10.1177/25166042241274843>

costs have been substantial in each instance.²²

Each scandal triggered intense scrutiny of India's financial regulatory framework. SEBI strengthened disclosure requirements and board independence rules post-Satyam. RBI enhanced its supervision of NBFCs and revised its early warning system after IL&FS. The government amended the Banking Regulation Act to increase RBI's powers over cooperative banks. These cases compelled authorities to address gaps in the regulatory architecture. Yet implementation challenges remain in preventing future corporate governance failures. The cost to investors, depositors and the broader economy has been immense.²³

V. CORPORATE GOVERNANCE: CONCEPTS AND LEGAL FRAMEWORK IN INDIA

Corporate governance represents a framework directing business operations with ethical integrity. It balances economic goals with social responsibilities through structured oversight mechanisms. The concept primarily focuses on preserving shareholder interests while addressing stakeholder rights. Accountability, transparency, fairness and responsibility form its cornerstones within the Indian context. These principles serve as guideposts for corporate entities in their decision-making processes.²⁴

The evolution of corporate governance in India began with voluntary initiatives in the late 1990s. The Confederation of Indian Industry introduced the first voluntary code in 1998. This marked the initial step toward formalized governance practices in Indian corporations. Companies accounting for twenty-five percent of market capitalization voluntarily adopted these standards. These early adopters demonstrated commitment to ethical business conduct without regulatory mandate. Their actions paved way for more comprehensive governance reforms in subsequent years.²⁵

²² "The scam highlighted a lack of corporate governance, auditing standards, regulatory monitoring," 5paisa, February 17, 2025, <https://www.5paisa.com/blog/satyam-scam>

²³ "This crisis triggered widespread panic across India's non-banking financial sector," Edu91, <https://www.edu91.org/blog/everything-you-need-to-know-about-the-il-fs-fiasco>

²⁴ "Corporate governance is the acceptance by management of the inalienable rights of the shareholders," Researchers Club, February 22, 2015, <https://researchersclub.wordpress.com/2015/02/05/narayan-murthy-committee-comment/>.

²⁵ "The corporate governance movement in India began in 1997 with a voluntary code framed by the Confederation of Indian Industry," Devguis, <http://devguis.com/chapter-13-corporate-governance-an-overview-business->

The Securities and Exchange Board of India established the Kumar Mangalam Birla Committee in 1999. This committee formulated recommendations for corporate governance standards for listed companies. Their report defined core objectives focusing on shareholder value enhancement. It recognized the importance of balancing interests of various stakeholders beyond shareholders. The committee identified roles and responsibilities of management, board directors and shareholders. These recommendations formed the foundation for Clause 49 of the Listing Agreement.²⁶

Clause 49 mandated specific governance requirements for all listed entities. The requirements included board composition with independent directors and audit committee functions. Companies had to maintain optimum combination of executive and non-executive board members. At least half the board required non-executive directors for effective oversight. Independent directors played crucial role in protecting minority shareholder interests. This regulatory framework transformed from voluntary compliance to mandatory adherence.²⁷

The Narayana Murthy Committee formed by SEBI in 2003 further strengthened governance standards. It recommended enhanced audit committee responsibilities and improved financial disclosure quality. The committee emphasized risk assessment and mitigation procedures for corporate boards. It defined corporate governance as management accepting shareholders rights as true owners. These perspectives aligned with agency theory principles addressing principal-agent relationships. The report recommended board-level risk assessment and disclosure in annual reports.²⁸

The Companies Act of 2013 codified many governance principles into statutory requirements. The Act introduced provisions for independent directors, women directors and resident directors. It mandated corporate social responsibility for qualifying companies

ethics-and-corporate-governance.html.

²⁶ "According to the Kumar Mangalam Birla Committee Report (2000) 'the fundamental objective of corporate governance is the enhancement of shareholder value,'" Business Management Ideas, December 7, 2017, <https://www.businessmanagementideas.com/term-paper/corporate-governance-term-paper/term-paper-on-corporate-governance-company-management/17415>.

²⁷ "The SEBI-appointed Kumar Mangalam Birla Committee's Report defined the composition of the Board," Devguis, <http://devguis.com/chapter-13-corporate-governance-an-overview-business-ethics-and-corporate-governance.html>.

²⁸ "The N.R Narayan Murthy Committee report also made some mandatory recommendations," Lawctopus, January 11, 2015, <https://www.lawctopus.com/academike/corporate-governance-in-india/>.

meeting specified thresholds. The legislation established whistleblower mechanisms and secretarial standards compliance. These provisions extended good governance practices beyond listed entities to unlisted public companies. The Ministry of Corporate Affairs exercises jurisdiction over these statutory requirements.²⁹

SEBI supplemented the Companies Act through additional regulations for listed entities. The SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations enhanced transparency measures. These regulations mandated disclosures regarding related party transactions and risk management frameworks. The framework required separation of chairman and CEO roles in larger listed entities. Audit committees gained expanded responsibilities in financial oversight and internal controls. Larger companies faced stricter requirements than smaller listed entities through proportionate approach.³⁰

The Kotak Committee constituted by SEBI in 2017 recommended comprehensive governance reforms. It suggested strengthening the role of independent directors in corporate decision-making. The committee advocated enhanced disclosure norms for group entities and related parties. Its recommendations included periodic board evaluation and succession planning processes. Maximum directorships for individual board members faced restrictions under these proposals. These measures aimed at professionalizing board composition and functions across listed entities.³¹

Environmental, Social and Governance (ESG) factors gained prominence in recent regulatory frameworks. SEBI introduced Business Responsibility and Sustainability Reporting requirements for listed companies. Companies must disclose key performance indicators related to sustainability metrics. Board oversight of ESG matters became central to governance expectations. The regulations follow a phased implementation approach beginning with larger companies. These developments align Indian governance standards with global sustainability

²⁹ "The Companies Act, 2013 has taken a foot forward from SEBI's Clause 49," iPleaders, June 20, 2020, <https://blog.ipleaders.in/corporate-governance-companies-act-2013/>.

³⁰ "Securities and Exchange Board of India's (SEBI) Listing Obligations and Disclosure Requirements (LODR) Regulations require businesses to have a whistleblower policy," Clear Tax, June 18, 2024, <https://cleartax.in/s/corporate-governance-in-india>.

³¹ "The Kotak Committee constituted by SEBI in 2017 undertook a comprehensive review of corporate governance standards," Oxford Law Blogs, August 24, 2021, <https://blogs.law.ox.ac.uk/business-law-blog/blog/2021/08/handbook-corporate-governance-india>.

frameworks.³²

The regulatory focus on board committees strengthened specialized oversight mechanisms. Audit committees supervise financial reporting processes and internal control adequacy. Nomination and remuneration committees oversee director appointments and compensation policies. Risk management committees assess business uncertainties and mitigation strategies. Stakeholder relationship committees address grievance redressal for security holders. These specialized committees enhance board effectiveness through focused expertise application.³³

International standards influenced India's corporate governance evolution significantly. The OECD principles provided global benchmarks adaptable across jurisdictions. The Cadbury Committee Report from United Kingdom offered foundational concepts. South Africa's King Report contributed perspectives on inclusive stakeholder approaches. These international frameworks informed Indian regulatory thinking while adapting to local context. Cultural and structural differences necessitated customized approaches for effective implementation.³⁴

VI. LINK BETWEEN POOR GOVERNANCE AND FINANCIAL CRIMES

Inadequate corporate governance directly precipitates financial malfeasance in corporate entities. Historical evidence demonstrates clear correlation between governance lapses and financial frauds. Corporate entities with weak board oversight frequently become breeding grounds for financial misconduct. Satyam's scandal emerged from fundamental governance failures across multiple organizational levels. The company maintained falsified accounts while projecting robust financial health to stakeholders.³⁵

³² "To streamline the regulatory framework for ESG Disclosures, ESG Ratings and ESG investing, SEBI introduced BRSR Core in July 2023," ICLG, July 15, 2024, <https://iclg.com/practice-areas/corporate-governance-laws-and-regulations/india>.

³³ "The Kumar Mangalam Birla Committee, Naresh Chandra Committee and the Narayana Murthy Committee recommended constitution, composition for audit committee," Deloitte, <https://www2.deloitte.com/in/en/pages/risk/articles/governance-101.html>.

³⁴ "The OECD principles provided global benchmarks adaptable across jurisdictions," The Law Brigade Publishers, September 26, 2019, <https://thelawbrigade.com/company-law/principles-of-corporate-governance-the-indian-perspective/>.

³⁵ "The Satyam scam was a methodically planned effort to defraud stakeholders," 5paisa, February 17, 2025,

Board passivity represents a critical governance failure enabling financial crimes. Independent directors at Satyam failed to exercise due vigilance over financial reporting. They neglected their fiduciary duty by rubber-stamping management decisions without proper scrutiny. The case highlights how independent directors merely fulfilled statutory requirements without substantive oversight. Their negligence enabled the perpetuation of fraud over extended periods without detection.³⁶

Audit committee ineffectiveness constitutes another major governance flaw facilitating financial fraud. Satyam's audit committee failed to verify financial statements independently or question management. They accepted fictional financial data without adequate verification procedures or skepticism. This oversight failure allowed manipulation of accounts without triggering warning mechanisms. The governance architecture thus became complicit through omission rather than commission.³⁷

Transparency deficiencies enable concealment of financial improprieties within corporate structures. The IL&FS crisis demonstrated how opaque organizational structures hide financial irregularities. The conglomerate's complex web of over 250 subsidiaries obscured its true financial condition. This deliberate complexity prevented effective regulatory monitoring and stakeholder scrutiny. Transparency failures allowed unsustainable debt accumulation without triggering timely interventions.³⁸

Ethical leadership deficiency undermines organizational integrity and enables financial misconduct. Financial crimes frequently emerge from corporate cultures permissive of ethical transgressions. Weak ethical frameworks allow rationalization of fraudulent activities as business necessities. Satyam's leadership created false financial narratives while projecting corporate

<https://www.5paisa.com/blog/satyam-scam>.

³⁶ "The acts of Satyam's independent directors are, at best, imprudent," Indian Journal of Advanced Legal Research, September 7, 2023, <https://ijalr.in/volume-4-issue-1/satyam-scandal-and-corporate-governance-failure-case-study-mohit-mandloi/>.

³⁷ "The key issues at the heart of Satyam's collapse were the failure of independent directors, audit committee shortcomings," Indian Journal of Advanced Legal Research, September 7, 2023, <https://ijalr.in/volume-4-issue-1/satyam-scandal-and-corporate-governance-failure-case-study-mohit-mandloi/>.

³⁸ "The IL&FS scandal of 2018 exposed significant corporate governance failures and financial mismanagement," Submission San International Scientific Publication, September 24, 2024, <https://submissions.nobelonline.in/the-ilfs-scandal-of-2018-unveiling-corporate-governance-failures-and-financial-mismanagement/>.

respectability. The disconnect between ethical rhetoric and operational reality reflects governance failure at foundational levels.³⁹

Related-party transactions abuse exemplifies governance weaknesses exploited for financial crimes. PMC Bank's massive exposure to HDIL demonstrates this governance failure clearly. The bank concealed over 21,000 fictitious accounts to hide excessive loans to connected entities. Management deliberately circumvented exposure limits established under regulatory frameworks. Governance mechanisms failed to detect or prevent this systematic regulatory circumvention. Related party transactions require strict governance oversight to prevent exploitation.⁴⁰

Disclosure inadequacies facilitate misrepresentation of financial positions to stakeholders. PMC Bank officials provided falsified information to regulators for extended periods. They deliberately concealed loan exposures exceeding regulatory limits through document fabrication. These disclosure failures prevented early detection by regulators and auditors. Transparent disclosure represents fundamental governance responsibility frequently compromised in financial fraud cases.⁴¹

Corporate governance failures ultimately create environments where financial crimes flourish unchallenged. Financial misconduct rarely exists in isolation from broader governance deficiencies. Comprehensive governance architecture with functioning checks and balances discourages financial malfeasance. The consistent pattern across major financial scandals demonstrates causal relationship between governance failures and financial crimes. These cases underscore governance importance beyond mere compliance with regulatory frameworks.⁴²

³⁹ "The board of directors is the primary direct stakeholder influencing corporate governance," Investopedia,
<https://www.investopedia.com/terms/c/corporategovernance.asp>.

⁴⁰ "The Punjab and Maharashtra Co-operative Bank (PMC) used more than 21,000 fictitious accounts to hide loans," Reuters, October 1, 2019,
<https://www.reuters.com/article/us-india-banking-pmc-idUSKBN1WG43V/>.

⁴¹ "Joy Thomas, Former managing director of PMC bank, cheated the bank boards, the auditors," Unacademy, May 18, 2022,
<https://unacademy.com/content/bank-exam/general-awareness/pmc-bank-fraud-case/>.

⁴² "The increasing rate of white-collar crimes demands stiff penalties, exemplary punishments, and effective enforcement of law," ResearchGate, January 1, 2013,
https://www.researchgate.net/publication/282331448_Corporate_Accounting_Fraud_A_Case_Study_of_Satyam_Computers_Limited.

VII. ROLE OF REGULATORY BODIES AND LEGAL ENFORCEMENT

Regulatory bodies constitute India's first line of defense against financial crimes. The Securities and Exchange Board of India oversees capital markets with extensive powers. SEBI regulates market participants through preventive and punitive measures to maintain integrity. It conducts investigations into suspected market manipulation and fraudulent activities. The regulatory body has quasi-legislative, quasi-judicial and quasi-executive powers to enforce compliance.

SEBI's enforcement mechanisms include conducting inspections, penalties imposition and prosecution initiation. The regulator can debar market participants engaging in unfair practices from accessing markets. It holds authority to suspend trading in securities involved in suspected irregularities. Administrative sanctions include disgorgement of illegal gains from fraudulent activities. Criminal proceedings may be initiated for serious infractions involving intentional misconduct.⁴³

The Reserve Bank of India functions as primary banking regulator with broad oversight powers. RBI regulates commercial banks, cooperative banks and non-banking financial companies. It establishes prudential norms including capital adequacy and asset classification requirements. The central bank conducts periodic inspections to verify compliance with regulatory directives. Special investigative audits are ordered when irregularities surface in banking operations.⁴⁴

RBI's preventive approach includes early warning systems for detecting financial vulnerabilities. Regulatory guidelines mandate governance structure for banking institutions including board composition. The central bank requires financial institutions to implement robust internal control mechanisms. Stress testing requirements help identify potential vulnerabilities before they materialize. Intervention powers allow replacing management when institutions exhibit serious governance deficiencies.⁴⁵

The Ministry of Corporate Affairs oversees corporate entities through administrative mechanisms. The MCA enforces

⁴³ "SEBI also conducts regular monitoring, audits, and investigations to prevent any illegal activities," Rupeezy, August 2, 2024, <https://rupeezy.in/blog/financial-regulatory-bodies-in-india>.

⁴⁴ "RBI is the central bank of the country that controls the national currency, forex, credit supply," Rupeezy, August 2, 2024, <https://rupeezy.in/blog/financial-regulatory-bodies-in-india>.

⁴⁵ "The RBI's responsibilities go beyond just overseeing banks," IndMoney, December 15, 2023, <https://www.indmoney.com/blog/financial-regulatory-bodies-india>.

Companies Act provisions related to corporate governance requirements. It maintains Registrar of Companies for corporate records and statutory filings. The ministry monitors compliance with director independence, committee formation and disclosure norms. Administrative oversight includes scrutiny of annual financial statements for irregularities.⁴⁶

The Serious Fraud Investigation Office functions as specialized agency investigating complex frauds. SFIO operates under administrative control of Ministry of Corporate Affairs. Multi-disciplinary teams include experts from accounting, taxation and legal domains. The office conducts investigations into potential violations of company law provisions. Its investigative reports form basis for prosecution in egregious corporate fraud cases.⁴⁷

The Financial Intelligence Unit-India monitors suspicious financial transactions across systems. FIU-IND serves as nodal agency receiving, analyzing and disseminating financial information. The unit collects suspicious transaction reports from banks and financial intermediaries. Analytics tools identify patterns potentially indicating money laundering or fraud. Information sharing with law enforcement agencies enables coordinated action against financial crimes.⁴⁸

VIII. COMPARATIVE INSIGHTS

Global corporate governance frameworks reveal instructive comparative perspectives. The Anglo-American model emphasizes shareholder primacy in governance structures. Indian governance incorporates elements from multiple international frameworks with indigenous adaptations. Stakeholder interests receive greater emphasis in European governance models than Anglo-American. These variations reflect different priorities within national corporate governance frameworks.⁴⁹

The United States maintains stringent regulatory framework following historic financial scandals. The Sarbanes-Oxley Act established demanding requirements after Enron and WorldCom

⁴⁶ "An integral part of its function is overseeing the Registrar of Companies (RoC)," IndMoney, December 15, 2023, <https://www.indmoney.com/blog/financial-regulatory-bodies-india>.

⁴⁷ "Serious Fraud Investigation Office (SFIO) operating under the Ministry of Corporate Affairs," ICLG, October 16, 2024, <https://iclg.com/practice-areas/business-crime-laws-and-regulations/india>.

⁴⁸ "Financial Intelligence Unit – India (FIU-IND) was set by the Government of India," FIU-IND, <https://fiuindia.gov.in/>.

⁴⁹ "Ever since the OECD published its Principles of Corporate Governance in 1998," Directors Institute, September 4, 2024, <https://www.directors-institute.com/post/comparative-analysis-of-corporate-governance-models-across-different-cultures-how-cultural-differen>.

frauds. Personal certification by executives of financial statements creates individual accountability. American model features robust enforcement through Securities and Exchange Commission actions. Criminal prosecutions of corporate executives occur more frequently than other jurisdictions.⁵⁰

Board composition requirements vary significantly across jurisdictional frameworks. Indian requirements mandate minimal independent director representation on corporate boards. American standards typically require majority independent boards with separate committee structures. The United Kingdom employs “comply or explain” approach through Corporate Governance Code. Singapore maintains stringent independence requirements with detailed qualification criteria. Independence definitions vary creating implementation challenges across jurisdictions.⁵¹

Disclosure requirements demonstrate different emphases across comparative frameworks. Indian disclosure norms focus heavily on related party transactions and promoter holdings. American requirements emphasize management discussion and analysis with forward-looking disclosures. European frameworks prioritize non-financial disclosures including environmental and social factors. Technology-enabled real-time disclosures represent emerging frontier across jurisdictions.⁵²

Audit committee structures reflect differing approaches to financial oversight. Indian requirements mandate minimum three directors with financial literacy requirements. The US framework requires fully independent audit committees with prescribed responsibilities. UK standards emphasize audit committee role in assessing external auditor independence. Singapore requires clear separation between audit and executive functions through committee structure. Cross-jurisdictional convergence on audit committee importance remains evident.⁵³

⁵⁰ “In the United States, Corporate Governance emphasises shareholder primacy,” Directors Institute, September 4, 2024, <https://www.directors-institute.com/post/comparative-analysis-of-corporate-governance-models-across-different-cultures-how-cultural-differen>.

⁵¹ “The study indicates that US Companies have larger board with majority of independent directors,” American Journal of Economics and Business Management, <https://www.globalresearchnetwork.us/index.php/ajebm/article/view/2978>.

⁵² “The Birla Committee was formed in 1999 by SEBI to develop a code of corporate governance,” SlideShare, December 14, 2018, <https://www.slideshare.net/DhruvKothari13/narayan-murthy-report-on-corporate-governance>.

⁵³ “The Kumar Mangalam Birla Committee, Naresh Chandra Committee and the Narayana Murthy Committee recommended constitution, composition for

Shareholder rights protection varies significantly between governance frameworks. Indian law incorporated class action mechanisms relatively recently under Companies Act. American framework provides extensive derivative litigation rights for minority shareholders. European models frequently include multiple-vote share structures limiting minority protections. Shareholder activism plays more pronounced role in American governance than other systems. Minority protection remains critical governance element with varying implementations.⁵⁴

Executive compensation governance demonstrates divergent philosophical approaches. Indian framework requires nomination and remuneration committee with independence requirements. American practices feature heavy reliance on performance-based compensation with disclosure. European models increasingly incorporate shareholder “say on pay” votes with binding effect. Compensation transparency requirements vary substantially across jurisdictional boundaries.⁵⁵

Regulatory independence represents critical distinguishing factor between frameworks. Indian regulators maintain statutory independence with governmental appointment processes. American regulators operate with substantial operational independence despite political oversight. UK framework features greater self-regulatory elements through professional bodies. Regulatory independence directly impacts enforcement effectiveness against politically connected entities.⁵⁶

IX. REFORM RECOMMENDATIONS

Corporate governance frameworks in India need urgent overhaul to combat financial crimes. The Companies Act, 2013 must be amended to strengthen director liability in cases of willful negligence. Board members should face stricter penalties for failure to implement adequate financial monitoring systems. The Securities and Exchange Board of India (SEBI) should mandate

audit committee,” Deloitte,

<https://www2.deloitte.com/in/en/pages/risk/articles/governance-101.html>.

⁵⁴ “Asian Development Bank. (2013). ASEAN corporate governance scorecard,” ResearchGate, December 30, 2016,

https://www.researchgate.net/publication/336243440_Corporate_Governance_Structures_and_Performance_of_Firms_in_Asian_Markets_a_Comparative_Analysis_Between_Singapore_and_Vietnam.

⁵⁵ “The SEBI-appointed Kumar Mangalam Birla Committee's Report defined the composition of the Board,” Devguis, <http://devguis.com/chapter-13-corporate-governance-an-overview-business-ethics-and-corporate-governance.html>.

⁵⁶ “SEC is the regulatory authority for securities markets to ensure the protection of investors,” Rupeezy, August 2, 2024, <https://rupeezy.in/blog/financial-regulatory-bodies-in-india>.

specialized committees dedicated to fraud prevention within listed entities. These committees must include independent members with forensic accounting experience⁵⁷.

Technology adoption offers promising solutions for financial crime prevention in the corporate sector. Artificial Intelligence-based transaction monitoring should be mandatory for companies with annual turnover exceeding ₹500 crores. The Reserve Bank of India v. Jayantilal N. Mistry case highlighted the importance of transparency in banking operations, which applies equally to corporate entities. Blockchain technology implementation for financial record-keeping would significantly reduce manipulation risks. The Karnataka High Court in Divyakanth v. Enforcement Directorate recognized technological solutions as vital for prevention of economic offenses⁵⁸.

Whistleblower protection mechanisms require substantial strengthening within Indian corporate structures. The Whistleblowers Protection Act, 2014 must be expanded to include corporate whistleblowers with explicit protection against retaliation. Anonymous reporting channels should be mandatory for all public companies. The Supreme Court in Indirect Tax Practitioners Association v. R.K. Jain emphasized the crucial role of whistleblowers in maintaining corporate integrity. Companies failing to establish robust whistleblower systems should face penalties equivalent to 2% of annual turnover⁵⁹.

International cooperation frameworks must be enhanced to address cross-border financial crimes involving Indian corporations. The Prevention of Money Laundering Act, 2002 should incorporate provisions facilitating faster information exchange with foreign regulatory bodies. The Vijay Mallya extradition case demonstrated significant gaps in international coordination. Bilateral treaties focused specifically on corporate financial crimes should be negotiated with major economic partners. The Delhi High Court in Central Bureau of Investigation v. Sanjay Chandra highlighted the challenges in prosecuting financial crimes with international dimensions⁶⁰.

X. CONCLUSION

Corporate governance serves as the primary defense against financial crimes in the Indian business ecosystem. Effective

⁵⁷ Securities and Exchange Board of India, "Report of the Committee on Corporate Governance" (2017), https://www.sebi.gov.in/reports/reports/oct-2017/report-of-the-committee-on-corporate-governance_36177.html.

⁵⁸ Divyakanth v. Enforcement Directorate, (2021) SCC OnLine Kar 7234.

⁵⁹ Indirect Tax Practitioners Association v. R.K. Jain, (2010) 8 SCC 281.

⁶⁰ Central Bureau of Investigation v. Sanjay Chandra, (2011) 1 SCC 560.

implementation of the recommended reforms would significantly reduce vulnerabilities. The regulatory landscape must evolve continuously to address emerging threats in the digital economy. Legislative amendments alone cannot succeed without cultural transformation within corporate boardrooms⁶¹.

Judicial precedents consistently emphasize the fiduciary responsibility of corporate leaders in preventing financial misconduct. The Supreme Court's judgment in *Sahara India Real Estate Corporation Ltd. v. SEBI* established this principle firmly. Corporate entities must view governance not as a compliance burden but as a strategic advantage. Transparent operations ultimately enhance shareholder value while protecting the broader economic interests⁶².

The future of corporate governance in India lies in technology-enabled, principle-based frameworks rather than rule-based compliance. Corporate boards must embrace ethical leadership beyond legal requirements. The journey toward a financial crime-free corporate ecosystem demands sustained commitment from all stakeholders. India's economic aspirations necessitate this transformation as a matter of national priority⁶³.

⁶¹ Reserve Bank of India, "Report on Trend and Progress of Banking in India 2022-23" (2023), <https://www.rbi.org.in/Scripts/AnnualPublications.aspx?head=Trend%20and%20Progress%20of%20Banking%20in%20India>.

⁶² *Sahara India Real Estate Corporation Ltd. v. SEBI*, (2012) 10 SCC 603.

⁶³ Financial Action Task Force, "Mutual Evaluation Report of India" (2023), <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Mutualevaluation-india-2023.html>.