

RESPONSE AWAITED ON ISSUES FLAGGED BY GRANT THORNTON

Sebi Rejects Icra's Settlement Application in IL&FS Case

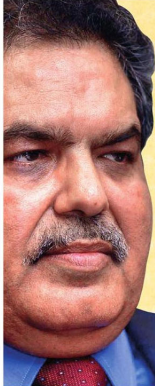
Says IL&FS default had market-wide impact, may now widen scope of investigations

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Mumbai: The Securities and Exchange Board of India (Sebi) has rejected credit rating agency Icra's consent application in the Infrastructure Leasing and Financial Services Ltd (IL&FS) case, said a person familiar with the development.

Icra had been seeking to arrive at a settlement in the matter of raters not having given warning of the IL&FS default in September last year. That triggered a liquidity squeeze that has gripped nonbanking finance companies (NBFCs) and added to the pressure on the markets amid an economic slowdown.

Sebi rejected the consent application as it was of the opinion that



Tough Stance

Sebi initiated adjudication proceedings against rating agencies Icra, CARE and India Ratings last year

They had given IL&FS the highest rating of AAA even when its subsidiary IL&FS Transport Networks defaulted in June last year

Sebi also sought responses from the agencies on the issues flagged by Grant Thornton in its report

While the legal proceedings were underway, Icra filed for consent application to settle the case this year

Sebi rejects application saying IL&FS default had market-wide impact, caused losses to a large number of investors and affected integrity of the market

AJAY TYAGI
SEBI CHAIRMAN

the alleged default had market-wide impact, caused losses to a large number of investors and affected the integrity of the market.

A consent order is a form of negotiated settlement of civil proceedings between the regulator and securities law offenders. The consent mechanism helps entities settle cases without admitting to guilt.

The regulator may now widen the scope of investigations against the agencies after Grant Thornton last month said their professional judgement had allegedly been compromised while assessing IL&FS and its group companies.

Sebi had initiated legal proceedings against three credit rating agencies after they failed to warn

investors in time about the deteriorating credit profile of IL&FS. Icra, CARE Ratings and India Ratings & Research had given IL&FS the highest rating of AAA even when its subsidiary IL&FS Transport Networks defaulted in June last year.

Abrupt Downgrade of Bond Ratings >> 12

Abrupt Downgrade of Bond Ratings

» From Page 1

There was also an abrupt downgrade in the ratings of bonds sold by IL&FS and related entities after they defaulted on payment obligations in September last year. Rating agencies had lowered the bonds from high investment grade to default.

The regulator has written to the three agencies seeking responses on the issues flagged by Grant Thornton in its report, said a person familiar with the development.

“After Sebi receives rating agencies’ responses, it will examine the violations,” said another person familiar with the development.

Grant Thornton’s forensic audit report found numerous instances of favo-

urs being handed out such as tickets for a Real Madrid football match as well as discounts on a luxury villa by the erstwhile top management of IL&FS to senior executives of rating agencies and their family members.

The board of Icria recently appointed external experts to examine the anonymous whistleblower complaint against its executives, which was forwarded to the company by Sebi. While the internal examination was underway, certain other allegations were also brought to the company’s notice.

In the wake of the complaints received by Sebi, Icria and CARE recently sent their managing directors on leave. Sebi, Icria, CARE and India Ratings didn’t respond to queries.