

IL&FS: Sebi looks to levy higher penalties on 3 rating agencies

Jayshree P. Upadhyay

jayshree.pyasi@livemint.com

MUMBAI

The markets regulator has sent fresh notices to rating companies for failing to warn bond investors of Infrastructure Leasing and Financial Services Ltd (IL&FS) in time about the scam at the shadow lender, two people with direct knowledge of the matter said, after its board disapproved of the low penalty imposed on them on 26 December.

A sizeable section of the board of Securities and Exchange Board of India (Sebi), including chairman Ajay Tyagi, felt the penalty was rather low, following which fresh notices were sent to ICRA Ltd, India Ratings and Research Pvt. Ltd and Credit Analysis and Research Ltd (CARE), the people said on condition of anonymity.

The relatively low penalty of ₹25 lakh each on the three companies had raised eyebrows, given the seriousness of the lapses. The agencies had assigned IL&FS the highest rating of AAA before the default in September 2018, even though its unit had defaulted in June of that year.

IL&FS defaulted on a series of debt obligations, triggering a crisis in the shadow banking sector as banks and mutual funds cut their exposure to non-bank lenders. In turn, non-banks restricted lending for purchases of cars,

two-wheelers and consumer durables, hitting demand and worsening India's economic slowdown.

"The Sebi board has found the conduct of these rating agencies grave enough to warrant a fresh look at penal action," said a senior regulatory official, one of the two people cited earlier. "It is a rare instance when Sebi uses its extraordinary powers under Section 15(I) of Sebi Act to review penalties imposed by its adjudicating officer."

Under Section 15(I), the Sebi board can call for and examine records of proceedings if it considers the orders passed by the adjudicating officer erroneous and not in the interest of

securities markets. After examining the matter, the Sebi board can enhance the quantum of penalty imposed. However, such orders cannot be passed without giving the market

The low penalty of ₹25 lakh each on three rating firms in the IL&FS case had raised eyebrows due to the grave lapses

entities concerned an opportunity to be heard.

Emails sent to India Ratings and CARE were not answered immediately. ICRA informed stock exchanges that it had received the notice.

The Sebi board's view of the conduct of rating agencies is a marked departure from earlier practices. In previous instances of lapses by rating agencies, Sebi either tightened the regulatory provisions or allowed the agencies to settle the matter through its consent mechanism.

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