

IL&FS case: Sebi raises penalty on ICRA, CARE to ₹1 cr each

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Markets regulator Securities and Exchange Board of India (Sebi) on Tuesday enhanced the penalty amount to ₹1 crore each on ICRA and CARE Ratings in connection with lapses on their part while assigning credit rating to non-convertible debentures of IL&FS. The crisis at diversified IL&FS, the board of which was superseded by the government, came to light in September 2018

and since then, the company, as well as related entities, has come under regulatory lens.

The regulator, in December 2019, had imposed a fine of ₹25 lakh each on ICRA and CARE in the matter, saying the default by IL&FS occurred because of the “lethargic indifference and need-less procrastination and laxity” of these rating agencies.

Sebi examined the order passed by the adjudicating officer (AO) and observed that the penalty levied by the AO

appeared to be erroneous and not commensurate with the overall impact these violations had on the market. In view of the same, the competent authority granted approval to review the AO order and accordingly the regulator issued show cause notices to the rating agencies, “calling upon the reasons why the penalty amount should not be enhanced”.

In two separate orders on Tuesday, Sebi said that the lapses on the side of ICRA and CARE, while rating the securities of IL&FS and its subsidiary IL&FS

Financial Services, have resulted in real and severe financial loss to investors.

The regulator, further, said it has shaken the investors’ faith in the reliability of credit ratings in the context of the corporate debt market.

“Had the noticee downgraded the ratings at the appropriate time and thereby forewarned the investors, the impact of the default on investors who invested in AAA-rated instruments, could not have been this severe,” Sebi noted.