

REACHES OUT to CARE, ICRA, India Ratings, Brickwork for details on fees for last 10 years to ascertain instances of 'round-tripping'; role of individuals also under lens

SFIO Asks Rating Cos to Share Info on Fees Given by IL&FS

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Mumbai: The Serious Fraud Investigation Office and other regulators have asked four credit rating companies for information on money they received from IL&FS and its subsidiaries as rating and non-rating fees to determine if there was any round-tripping of funds or favours granted, said three people familiar with the development.

The investigation arm of the ministry of corporate affairs and the IL&FS board asked CARE Ratings, ICRA, India Ratings & Research and Brickwork Ratings to provide the fee data for the past 10 years. The Securities and Exchange Board of India and the Enforcement Directorate are among other entities probing the rating companies in the IL&FS case.

"Information has been sought to probe if there has been any instance of quid pro quo or round-tripping. The probe is at a preliminary stage and the information is being verified," said an official privy to

development. Investigators are also examining if any rating company officials were involved in any wrongdoing, the people said.

"While the role of the credit rating companies is being probed in general, the role of individuals associated with the agencies is now the focus of the probe to ascertain if they took gratification to give favourable ratings and even compromised the firms' positions," said an official. The SFIO, in its chargesheet, said both the auditors and the credit rating companies were responsible for the IL&FS crisis, sparked by payment defaults.

"We are fully cooperating with authorities and would not like to comment on any case-specific developments," a spokesperson for CARE Ratings said. ICRA, a Moody's Investors Service company, declined to comment, while queries sent to India Ratings, a Fitch Group company, and Brickwork Ratings were unanswered. Shradh Goel, head of corporate communications at IL&FS, declined to comment.

Grant Thornton, which the government-appointed board of



IL&FS, commissioned to conduct a forensic audit of the company's transactions after it defaulted on debt repayments, detailed alleged anomalies and issues of professional compromises and corporate governance by the companies that had rated IL&FS over the past 10 years. In a 105-page report, it said the accused IL&FS directors tried to keep many ratings "private," pushed rating company officials to obtain favourable ratings, influenced them to change the language of their rationale and

occasionally inflated numbers to get better ratings.

GT said that CARE's financials indicated that IL&FS and its subsidiary IL&FS Financial Services (IFIN) owned a 5-9% equity stake in CARE during 2007-2013.

"Further, during the same period, we have noted that CARE had also provided ratings to instruments of IFIN, IL&FS Transport Networks and IL&FS. Thus, it appears to be a potential conflict of interest as CARE is rating its equity shareholder, which may potentially affect the independence of the rating agency," Grant Thornton said in its report.

The forensic auditor said that based on a review of emails, it appeared that the rating companies were "potentially aware" of the issues in the IL&FS Group.

"However, various strategies deployed by the then key officials of IL&FS Group and certain favours/gifts provided to rating agency officials suggest the possible reasons for consistent good ratings provided to IL&FS Group during the period June 2012 to June 2018," Grant Thornton said.