Third Addendum to Additional Submission for RTI Second Appeal on Monday, 2nd March 2020

File Number CIC/SEBIH/A/2017/139953

SEBI wrote:

c. As a matter of general practice, the mask is changed on a monthly basis in the first week of every month. The purpose for changing the mask periodically is to ensure that the identity of any particular FPI/FII is not revealed by analysing the disclosures made by the FIIs in public domain (shareholding pattern, disclosures under SAST/PIT Regulations).

Response: ***This argument is extremely disturbing, as it reveals that the civil servants and lawyers at SEBI do not understand at all the notion of informational efficiency in a modern financial market.*** The civil servants and lawyers at SEBI clearly need help to understand what is the public interest. Let me try to give a brief explanation.

When we say that the goal of a regulator is to make the financial market informationally efficient, we mean we want to try and make every market participant better informed and smarter. This means precisely the ***exact opposite*** of what is suggested above. In the ***public interest*** you would ***want*** everyone to learn more from any observable data – be it prices, order flows, shareholding patterns, whatever) – about what they cannot observe. The whole point round the world about requiring more and more disclosure and quicker and clearer disclosure is to try and make even prices and other observable more informationally efficient, so that ***a level playing field can be established for all participants, not just the FIIs***.

There is one exception to this general rule. If requiring more disclosure were to diminish incentives on the part of some to even gather costly information in the first place, then arguably there is a trade-off. And in some instances allowing some traders less fettered advantage may preserve their incentives to gather the information, while increasing the overall information available to all participants.

For this reason, when traders pay crores to gather real-time data feeds, we would not expect any regulator to then immediately require instant disclosure of that to professors to use for free. But in an active financial market information is stale and useless for economic (market-moving) purposes within a few minutes at most and often within seconds. That is why no one has complained about the NSE Detailed Trades and Orders data released for over 15 years, under SEBI's nose, with its full knowledge (then SEBI chief Shri Damodaran was part of a function at the Indian School of Business where that NSE data base was discussed in passing).

So to impose further restrictions on what can be revealed is purely against the public interest of making markets more informationally efficient ***by helping all of the less smart people gradually become more smart***.

This is exactly ***analogous to the arguments related to patents for medical research***. Ideally society wants every medical advance to be immediately available to everyone and every firm. But without a patent-related monopoly, firms would not sink large sums of money into research. However, while pharmaceutical firms would like a 100-year monopoly with each patent, in most countries, depending on the exact innovation, the patent monopoly is only for 5-15 years.

Similarly, by all means protect the expensive real-time data feeds that commercial investors pay a lot for. But please distinguish between that and the stale masked data that we have been asking for. Thank you.

Murugappa Krishnan

Murugappa Krishnan 29th February 2020