

# OPEN

## M Damodaran: Only a thorough probe can establish the extent of fraud and the role of outsiders

M Damodaran, former chairman, SEBI, in conversation with Ullekh NP



M Damodaran, former chairman, SEBI (Photo: Getty Images)

**MELEVEETIL DAMODARAN**, former chairman of the Securities and Exchange Board of India (SEBI), is known for his brevity, wit and often tit-for-tat responses. He is also sceptical about certain journalistic preoccupations which, according to him, include confusing facts and opinion. As the National Stock Exchange (NSE), once revered for its good governance, battles a scandal about sharing of confidential information with an outsider, involving its former CEO and her alleged 'Himalayan guru', the former head of India's market regulator dwells on the issue. The septuagenarian dismisses reports that he had to leave SEBI for being strict with NSE officials, such as Chitra Ramkrishna and others, about their transgressions. Kerala-born Damodaran, now chairman of IndiGo, director of multiple company boards and a corporate advisor, adds that the ongoing controversy is unlikely to significantly impact investor confidence because a new leadership is at the helm of the country's largest stock exchange which is also the world's biggest derivatives exchange in terms of the number of contracts traded.

**Do you think SEBI, India's market regulator, has been a bit lax about its investigation into who actually is this 'siddha purusha' of Chitra Ramkrishna? Do you think this Himalayan spiritual guru is a fictitious character? Also, should the regulator hand over the job to other agencies?**

The focus of SEBI's investigation cannot be expected to be establishing the identity of the 'siddha purusha'. SEBI's order has proceeded on the basis that information has been passed on to an outsider, whether that outsider is a yogi or an ordinary mortal. Your use of the word "other" would seem to indicate that SEBI is an investigative agency. It is not. According to newspaper reports, investigative agencies are on the job.

**SEBI was armed with new powers after the Harshad Mehta scam in 1992. Do you think this incident demands bestowing more powers on SEBI?**

This 'incident' does not call for giving SEBI more powers. The existing powers are adequate for SEBI to discharge its duties.

**What kind of specific confidential information do you think was passed on by former NSE Managing Director and CEO Ramkrishna and her team to people who were not supposed to receive them?**

The SEBI order indicates the nature of information that was passed on to the 'outsider'.

**How culpable is the NSE board in this scandal? What kind of changes need to be made on the board to ensure that such incidents do not happen again? Also, how do you react to the board keeping SEBI in the dark while letting Ramkrishna “exit through resignation” on December 2, 2016 and still praising her for her “sterling contribution to the growth of organisation”?**

The board’s responsibility is “superintendence, direction and control”. Clearly, all of this is not in evidence in the instant case. The board’s primary responsibility is to prevent wrongdoing by management. If this responsibility is properly discharged, there might be nothing to report to SEBI, except for violations of regulations.

**Do you think all of this is a case of mere corporate governance failure at NSE? Or is it far beyond that, involving bigger players outside?**

These are at one level corporate governance violations. Only an investigation will conclusively establish the nature and extent of the fraud, if any, and the role, if any, of outsiders.

**How important is NSE, according to you, for investors in India?**

NSE is not just another systemically important institution. It is a very important player in the country’s economic ecosystem.

**Less than 1.5 per cent of Indians invest in stock markets compared with close to 30 per cent in the US and more than 10 per cent in China. Do you think incidents such as these will further affect credibility and therefore trigger greater hesitation on the part of potential investors?**

I do not believe that these developments will significantly impact investor confidence. Investors look to the institution and not any individual. They are aware that there is new leadership at the exchange and some improvements/changes have been given effect to.

**NSE’s former Group Operating Officer Anand Subramanian was promoted to the position by Ramkrishna for his “resourcefulness” and “ability to grasp new ideas” although he had no prior experience in capital markets, according to the SEBI report. Your comments?**

I have no information other than the SEBI order (not a report, as journalists have repeatedly referred to it).

**The Hindu Business Line reports that some time prior to 2008, two SEBI officials who had gone to NSE after brokers made complaints that they had problems in receiving price feeds from NSE and BSE were locked up in the NSE office. You acted swiftly to free them. You read NSE the riot act. And then, soon after, you had to leave SEBI. Why was NSE seen as beyond reproach? Or was there more to your exit than met the eye?**

My leaving SEBI was not related to any incident. I served my three-year term (February 18, 2005 to February 18, 2008) and left on its completion. I was eligible for another term, but eligibility is not entitlement.

**You had been critical of journalists often when you were SEBI chairman. Yet journalists have earned the credit for unearthing irregularities at NSE and have even won favourable court verdicts in the past. Are you still sceptical of business journalists?**

I continue to be critical of journalists who confuse fact and opinion. Journalism is an excellent profession, but some of its practitioners do it no credit. As for irregularities at NSE, two journalists (one of them a respected longstanding commentator and author) exposed what went on. I hope, one day, sooner rather than later, many more will do enough to persuade me to revisit my scepticism.