National Stock Exchange Glitch

Why in news?

Recently, trading on National Stock Exchange (NSE) got halted due to a technical glitch.

Why it got halted?

- NSE accounts for 100% of equity derivative trades and almost 90 % of cash trades in equity.
- Its trading got halted due to issues with telecom links and trade did not migrate to the disaster recovery (DR) site immediately.
- NSE said that it has multiple telecom links with two service providers to ensure redundancy.
- But all the links became unstable in the same time thereby impacting the risk management system.
- NSE reported that there was no impact on the trading system and trading hours got extended till 5 pm on the BSE, NSE and MSEI.

What was the impact of this halt?

- Since February derivative contracts will get expired in the following day, those who held derivative positions got grieved due to the uncertainty in trade resumption.
- They also suffered losses on option contracts.
- Due to the gap in communication, intra-day trading positions got forcibly sold in BSE which resulted in loss for smaller traders.

What we can analyse from this halt?

- Technical glitches are common on a stock exchange which handles large volumes of trading & they are expected to possess back-up infrastructure.
- But three questions arise from this trade halt:

1. Why did the trading immediately not migrated to the DR site to ensure there is no disruption in trading?

2. How did all the telecom links become unstable at the same time?

3. If there is no impact on the trading system, why was the halt really necessary?

- Moreover there was no proper communication to investors.
- The extension of trading hours was revealed only when regular trading session was about to end.

How should the Regulator respond now?

- The Regulator-SEBI should expedite the investigation behind the halt and take stern action which can act as deterrent for any future lapses.
- It should soon frame rules for compensating investors in such events.
- SE needs to be enquired why it did not communicate clearly to its investors about restart of the trading.
- A stress test needs to be carried on the exchange platforms to check whether they can handle such heavy load around the derivative expiry period.

Source: Business Line

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