SEBI's Order on NSE

Why in news?

Securities and Exchange Board of India (SEBI) ordered the National Stock Exchange of India (NSE) to pay a fine of about Rs.1,000 crore over certain irregularities.

What is the scam all about?

- Co-location services allow brokers to operate closer to their servers upon payment of additional fees.
- It helps brokers secure advantage over others due to proximity to exchange servers as data transmission takes less time.
- A whistleblower in 2014-15 complained to the SEBI, on brokers abusing the colocation facility in collusion with few top NSE officials.
- NSE was then using the so-called tick-by-tick (TBT) server protocol to relay data to members.
- Normal data protocols send data to all users connected on the network at the same time.
- But TBT transmits in the sequence of orders received.
- In other words, the user who gets the access to the system first would receive data earlier than the rest.
- [Omnesys Technologies is the company that provided this technology to NSE.]
- A select set of brokers in collusion with NSE officials and Omnesys Technologies got the first access to the NSE's servers giving them an advantage.

What is SEBI's order now?

- SEBI has found OPG Securities, GKN Securities and Way2Wealth along with internet service provider Sampark Infotainment guilty of unfair trading practices.
- These brokerages continuously got first access to NSE servers.
- OPG got access to NSE's backup servers which were maintained by it to prevent technical glitches on the main server from impacting operations.
- It thus, in effect, gave them first access which helped them in executing orders fast.

- NSE also overlooked the fact that Sampark Infotainment did not have a valid Department of Telecom licence to provide dark fibre connectivity to some brokers.
- [Connection through dark fiber ensures more bandwidth and less distortion of data; faster and efficient access to exchange’s servers.]
- Along with brokers, SEBI has also charged several NSE top officials for colluding with brokers and not following appropriate protocols.
- Two former NSE chiefs have been ordered to pay back a part of their past salaries as punishment.
- Further, NSE has been slapped with a fine of Rs 687 crore plus interest.
- Also, NSE cannot access capital markets for six months, and its Initial Public Offering (IPO) will be delayed till the year-end.

Did NSE break the rules?

- It was NSE's supervisory negligence that led to some of its broker-clients gaining preferential access to certain market data.
- But there was lack of sufficient evidence to establish fraudulent conduct by NSE.
- It's because it has not yet been proven decisively that the firms with preferential access managed to profit from such data.
- Nevertheless, clearly, NSE failed to ensure that the exchange was fully compliant with the norms governing securities exchanges.
- This violates SEBI's principle of not allowing information asymmetry among the participants, and thus affects market fairness.

Why is SEBI's move significant?

- Millions of retail investors believe that stock exchanges provide a level playing field to all the players.
- Given this, the financial penalty on NSE is a welcome regulatory action.
- It ensures that small investors retain confidence in the fairness and soundness of key institutions that enable a market economy.

Source: Economic Times, The Hindu

Quick Fact

National Stock Exchange of India

- The National Stock Exchange of India Ltd. (NSE) is the leading stock exchange in India.

- It is the second largest in the world by nos. of trades in equity shares from January to June 2018.
- NSE has a fully-integrated business model comprising exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings.
- It also oversees compliance by trading and clearing members and listed companies with the rules and regulations of the exchange.