SEBI’s Proposals on Colocation Facilities

Why in news?

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SEBI has addressed the complaints regarding Algo trading in colocation facilities.

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What is Algo trading?

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- Algorithmic trades are orders executed on the stock exchange platform by computers through a programme designed by the user.
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- Algo trades can involve different degrees of manual intervention ranging from zero-touch algorithms which does not require much manual intervention.
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- It was introduced in 2009 in India and there has been rising interest from large domestic and foreign institutional investors. Click here to know more.
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What is colocation facility?

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- A colocation facility is a physical data centre that allows customers to deploy their own servers, networks and storage hardware.
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- It is powered by Internet bandwidth, electricity, backup power and other services generally required in a data centre.
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- The colocation feed includes all the orders entered in to the SE trading system along with order alterations, cancellations and executions
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- It can be used only by machines which can spot trading opportunities by scanning through voluminous data and therefore will be useful only to

programs that run from colocation facilities.
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- It also allows trading members and other institutional players to place their servers' right next to the Stock Exchange servers so that their latency-sensitive strategies can work effectively.
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What are the recent resolutions by SEBI on colocation?

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- SEBI has announced that stock exchanges should publish minimum, maximum and mean latencies within the colocation facility.
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- This would aid in bringing parity among these users and to increase transparency.
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- The board has also decided to introduce shared colocation facilities that allow smaller members to rent rack space for Algo trading.
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- A Tick-by-Tick Data feed is proposed to be made available to all trading members, free of charge by the exchanges.
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What are the significance of SEBI's proposals?

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- SEBI has found a solution to tackle the challenge posed by the unregulated Algo trading by deciding to introduce colocation facilities.
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- Colocation facilities are more favourable to the long term investors for whom speed of execution matters little.
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- But SEBI has also planned for the data feed which will be beneficial for the small investors, who trading involves crunching numbers.
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- The new proposals will boost Algo trading as it accounts for more than 40 per cent of the cash and derivative turnover and almost 80 per cent of the orders.
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Source: Business Line

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