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SEBI SLAMS 1000 CRORE PENALTY
NSE CO-LOCATION

On 30th April, 2019, the Stock Market Regulator, Securities and Exchange Board of India (SEBI), ordered the National Stock Exchange of India (NSE) to pay an amount of Rs. 624.89 crore with 12% per annum interest for having violated Stock Exchanges and Clearing Corporation (SECC) regulations.

Origin- NSE Co-location first came into existence in the year 2015, when a whistleblower wrote a letter to the SEBI providing details on how the NSE was giving a selected few high-frequency brokers and traders preferential access to its trading platform. The entire cycle revolves around the concept of co-location, which is a platform that provides the brokers to operate closely to their servers upon payment of additional fees. This platform provides an advantage to those brokers who have availed this facility as data transmission takes less time. According to the whistleblower, NSE's top brass in collusion with the brokers had abused the colocation facility. It was submitted by the whistleblower that NSE operates a *Tick-by-Tick* server protocol to transfer any data to its members. The TBT server protocol was different from other data protocols primarily because it used to relay the data in the order of sequence it was received instead of sending all the data to the users, who are connected to the network, at the same time. Hence, it was concluded that the user who had access to the system first, would be aware of the data before the rest and therefore, OPG Securities, GKN Securities and Way2Wealth along with internet service provider Sampark Infotainment were given the first access to the NSE's servers giving them a head start.

Exegesis "*If A has to receive Rs 5 from B and if B does not pay, then it is a very open and simple assessment of fraud. However, assuming that A was to receive Rs. 100 but has received only Rs. 95 without him being aware that he has to receive Rs. 95 then in the concept of fairness, the brokers should have equal access and opportunity for Rs. 5*".

Outcome "*Unfortunately, due the favorable access provided to entities like OPG Securities and so on, the benefit was limited to such entities instead of other brokers and their clients*".

Order "*Upon a thorough investigation by Security Regulator (SEBI) which was conducted in this matter, it was deduced that OPG Securities got access to NSE's back-up servers which were set up in order to prevent technical glitches on the main server from impacting operations. Since, the traffic was light on these servers; any data sent through these transmissions would be received faster. As per the order of SEBI, NSE failed to provide equal and fair access to all its members and did not exercise adequate due diligence while selecting its trading architecture, thereby creating an environment in which information dissemination was asymmetric. Taking into consideration all the evidence, SEBI ordered NSE to pay a fine of Rs. 1000 crore (approx.) and is barred from accessing capital markets for the next six months. With regards to other entities involved in the collusion, SEBI held that these entities engaged in deliberate misrepresentations, circumvention of regulatory norms and policies of NSE and manipulation of the network pathways at the co-location facilities of the NSE and thereby have been asked to pay a certain amount as penalty*".

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