



NSE Found Guilty of Lapse in Algo-trading Case

The Securities and Exchange Board of India (SEBI) has barred the National Stock Exchange (NSE) from raising money from the securities market directly or indirectly for six months.

Why NSE is Banned?

According to SEBI, NSE officials provided **high frequency traders'** unfair access through **co-location** servers placed at the site of exchange, which could speed up **algorithmic trading** leading to **front-running**.

The SEBI asserted that NSE had failed to ensure **equal and fair access to all** members when they were using its algorithmic trading platform and co-location services.

What is Co-location?

Co-location allows brokers to operate closer to their servers upon payment of additional fees. It helps brokers secure an advantage over others due to proximity to exchange servers as data transmission takes less time. Orders reach exchange servers faster than those who have not availed of the facility.

Co-location and Dark Fibre

Dark fibre refers to a dedicated communication line through which messages travel faster than the regular lines because of the absence of other traffic. As such, there is nothing illegal about using such faster connectivity infrastructure, but in the case of NSE, it was secretly used, thus creating a disadvantageous proposition for other stakeholders.

What is Front-running?

Front-running is when a broker or any other entity enters into a trade because they have the foreknowledge of a big non-publicized transaction that will influence the price of the asset, resulting in a likely financial gain for the broker. It also occurs when a broker or an analyst buys or sells shares for their account ahead of their firm's buy or sell recommendation to the clients.

Front-running is also known as **tailgating**. Front-running is illegal and unethical because it takes the advantage of private information that is not available to the public.

How will the Order affect NSE?

NSE will have to pay Rs 687 crore to the Investor Protection and Education Fund, and it cannot access capital markets for six months. Its IPO will be delayed till the year-end.

Investor Protection and Education Fund

- Investor Education and Protection Fund (IEPF) has been set-up under the Companies Act, 2013.

IPEF is maintained under the **Consolidated Fund of India**. The amounts which have remained unpaid or unclaimed for a period of seven years are required to be transferred to IEPF.

- **Investor Protection and Education Authority** is mandated to promote investor education, awareness and protection, and to make refunds of shares, unclaimed dividends, mature deposits

PDF Refernece URL: <https://www.drishtias.com/printpdf/nse-found-guilty-of-lapse-in-algo-trading-case>

