Source : www.thehindu.com Date : 2019-05-07

DESERVED PENALTY: SEBI'S 'CAPITAL' PUNISHMENT TO NSE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

A four-year-long investigation into a possible scam in an Indian securities exchange has finally come to an end. The Securities and Exchange Board of India (SEBI) last week ordered the National Stock Exchange of India (NSE) to pay a fine of about 1,000 crore within 45 days for its supervisory laxity that led to some of its broker-clients gaining preferential access to certain market data. Two former NSE chiefs have been ordered to pay back a part of their past salaries as punishment for their failure to ensure that the exchange was fully compliant with all provisions of the norms governing securities exchanges. In its order, SEBI noted that the NSE's use of the tick-by-tick server protocol had allowed certain high-frequency trading firms using the exchange's secondary server to receive important market data before other market participants, who were thus put at a disadvantage. While it has not yet been proven decisively that the firms with preferential access to data from the exchange managed to profit from such data, the episode raised serious questions about market fairness. After all, millions of retail investors believe that stock exchanges provide a level playing field to all the players. SEBI ruled that it did not find sufficient evidence to conclude that the NSE committed a fraudulent act, but was unequivocal in ruling that the Exchange had failed to exercise the necessary due diligence to ensure that it served as a fair marketplace. The fact that the NSE had opted to switch to a new data transmission system, which relays data to all market participants at the same time, prior to a whistle-blower's complaint in 2015 may have worked in the NSE's favour.

Despite the sizeable fine that it imposes on the NSE, the SEBI verdict must surely come as a relief to the erring stock exchange for at least two reasons. First, the fact that it has not been found to have intentionally favoured certain market players over others should help it retain investor confidence. Also, the exchange, which had been barred from proceeding with its initial public offering during the pendency of the SEBI probe, will now finally be able to tap the capital markets to fund its growth, after a six-month moratorium. While there is bound to be debate about the magnitude of the fine, overall the financial penalty is a welcome regulatory action. Millions of investors choose to do their trading on market platforms like the NSE every year in the belief that the marketplace offers an equitable environment to carry out their trades. As the markets regulator, SEBI must deal with breaches of their supervisory brief by exchanges in an exemplary manner to ensure that small investors retain confidence in the fairness and soundness of key institutions that enable a market economy.

END