

LOK SABHA UNSTARRED QUESTION NO. 1082
TO BE ANSWERED ON FRIDAY, FEBRUARY 8, 2019/MAGHA 19, 1940 (SAKA)
FORENSIC AUDITS OF BROKERAGE FIRMS

QUESTION

**1082 : KUNWAR HARIBANSH SINGH
SHRI S.R. VIJAYAKUMAR
SHRI S. RAJENDRAN
SHRI GAJANAN KIRTIKAR
SHRI T. RADHAKRISHNAN
SHRI SUDHEER GUPTA**

Will the Minister of FINANCE be pleased to state:

- (a) whether the Securities and Exchange Board of India (SEBI) had commissioned three auditing firms to carry out forensic audits of brokerage firms who have gained preferential access to servers of National Stock Exchange of India Limited (NSE) and if so, the details thereof;
- (b) whether these auditing firms has submitted its report to the SEBI and if so, the details of the report;
- (c) the number of brokerage firms found involved in getting preferential access to NSE server;
- (d) the *modus-operandi* adopted by such broking firms; and
- (e) the steps taken/being taken by the NSE to strengthen its infrastructure to avoid such type of malpractices by brokerage firms in future along with the action taken/ proposed to be taken by the SEBI against such guilty firms?

ANSWER

**MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI PON. RADHAKRISHNAN)**

- (a): Securities and Exchange Board of India (SEBI) appointed two audit firms viz. Deloitte Touche Tohmatsu India LLP (Deloitte) and Ernest and Young LLP (EY) for carrying out forensic audit of the broking firms which had, inter alia, alleged to have gained preferential access to servers disseminating tick-by-tick (TBT) data feed at National Stock Exchange of India Limited (NSE).
- (b): The two audit firms, namely Deloitte and EY, have submitted their reports to SEBI. The reports have brought out that one of the broking firms was consistently logging in first to the servers disseminating TBT data feed of NSE, thereby gaining advantage in terms of receipt of TBT data feed. The reports also observed that few broking firms were found to be consistently logging on to the secondary server without any valid reasons, thereby gaining advantage in terms of receipt of TBT data feed.

(c): Nine brokerage firms have been found to be involved in getting preferential access to NSE server.

(d): Same as replied to in part (b) above.

(e): NSE has launched Multicast Tick-by-Tick (MTBT) as a protocol for TBT data dissemination from May, 2014. As part of this protocol, the network layer efficiently disseminates the data to all the members at the same time which ensures that the Multicast feed is disseminated in a reliable manner from NSE. Further, to improve its systems and processes from time to time, NSE developed and implemented policies and standard operating procedures to monitor and regulate member connectivity, policies for allocation of server IPs, load balancing, access to recovery servers, suitable systems to maintain logs of server start-times, adequate systems to monitor and analyze server data and appropriate archival policies with regard to MTBT system architecture.

Enforcement actions have been initiated by SEBI against 1 broking firm, inter alia, for consistently logging in first to the servers disseminating TBT data feed of NSE and consistently logging on to the secondary server and 2 broking firms, inter alia, for consistently logging on to the secondary server. Also, administrative warnings have been issued to another 6 broking firms in this regard. Further, NSE has, inter alia, been advised to carry out detailed scrutiny/ examination of all such broking firms, which had connected to the secondary servers, apart from the broking firms already covered by SEBI.
