

## **Audit finds NSE's system compromised for 18 months**

The NSE's trading system was compromised for about one and half years, which allowed certain brokers to get preferential treatment over all others. Some of the bourse's employees helped these brokers gain such preferential access to the NSE's trading system, a Sebi-directed enquiry by consulting firm Deloitte has found.

Acting on a letter by a whistleblower to Sebi in early 2015 that some brokers were manipulating NSE's trading system for illegal gains, the regulator had asked the exchange to appoint an independent auditor to look into the system and present its finding to the market regulator. The bourse had mandated Deloitte to examine its systems and place its report by December 31, 2016. After Deloitte submitted its report on December 23, the NSE presented it to Sebi.

NSE, in its draft prospectus, said its system was prone to manipulation and the agency's analysis found "trends for certain periods where a few stock brokers appear to be the first to connect to specific servers significantly more often than others". The findings also pointed out that data was disseminated in a sequential manner, thus the broker who connected first to the server received market feed before the broker who connected later. NSE's IPO draft prospectus didn't name Deloitte as the independent agency that conducted the audit.

The Deloitte report "observed indications of potential preferential treatment to a few stock brokers. Different stock brokers were treated differently and there was no uniform approach applied across stock brokers with respect to allocation of new IPs across ports on existing servers and movement from one server to another. Ticks were disseminated faster to members connected to less crowded servers, thereby giving an advantage to such stock brokers".

The Deloitte report said "one particular stock broker almost consistently connected first to fall back or secondary server during December 10, 2012 to May 30, 2014" and this "may not have been possible without the knowledge of certain employees...who did not take any action despite consistent connections to the fall back servers against protocol".

*(Times of India)*