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## SEBI asks IIT Bombay for ways to regulate high-frequency trading in India

By Sreejiraj Eluvangal on 2018-01-09 FINANCE ONLY ON ULTRA

The Securities & Exchange Board of India has tapped Indian Institute of Technology, Bombay to submit a report on the various options to regulate algorithm trading in India.



NSE is India's largest exchange

The appointment of IIT Bombay to help with the matter comes in the context of the SEBI's ongoing consultation with industry and other stakeholders for framing rules on algorithmic trading in India.

Algorithmic trading refers to extremely fast trading done by computers instead of humans. Since it is the computers that are placing the order, they are able to beat humans in terms of speed.

However, in case of such 'high frequency trading' or HFT, even a difference of 1 millisecond — or one thousandth of a second — can mean the difference between a successful purchase and losing your order to a competing computer.

SEBI was forced to step in to regulate following allegations that the National Stock Exchange or NSE was giving an unfair edge to certain players by facilitating quicker access to these players to 'tick by tick' data.

Tick by tick data is the real-time, raw data on orders being placed at the exchange and forms the 'raw material' for algo trading.

Given that the bandwidth and server capacity at the NSE is limited, the exchange cannot provide tick-by-tick data simultaneously to an unlimited number of brokers or traders.

According to a [report by an independent agency](#) there was a possibility of manipulation of the system for traders to be always able to connect to less-crowded servers at the NSE, thus ensuring faster access to vital data.

To ensure fairplay, the SEBI in 2016 [suggested various methods](#), including that the exchange must accumulate orders for 100 milliseconds and then execute all these orders simultaneously.

SEBI's discussion paper also suggested that orders could be executed randomly within a small window of time, instead of executing them chronologically. This would deny any advantage to players who get data 1 millisecond faster.

However, the suggestions — which could severely disrupt the ability of high frequency traders to carry out their business — have come in for criticism from some of the market participants.

The appointment of IIT Bombay as a consultant on the matter is aimed at arriving at a solution that is acceptable to all.

IIT Bombay, after taking on the role, has already made an interim presentation on the matter, but is yet to give its full report to the SEBI.



**Sreejiraj Eluvangal**

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