

What is Co-location?

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In news— CBI has arrested Chitra Ramakrishnan, former CEO of National Stock Exchange of India (NSE) under co-location scam related to the manipulation of the market at the stock exchange, recently.

About the scam-

- **There are allegations that some brokers who had leased space at the NSE co-location facility were able to log on to the NSE's systems faster with better hardware specifications** while engaged in algorithmic trading, which allowed them unfair access and advantage during the period from 2012 to 2014.
- **Even a split-second faster access is believed to result in huge gains for a trader.**
- The Securities and Exchange Board of India (Sebi) found that preferential access was given to stock brokers at NSE's colocation faculty.
- It found that a single stock broker could log on to multiple dissemination servers through multiple IPs assigned to him.
- This gave at least 15 brokers preferential access.
- Following its investigation into the issue, Sebi in 2019 directed NSE to disgorge Rs 624.89 crore, and barred the exchange from accessing the market for funds for six months.
- Sebi also asked the former NSE CEOs, Ramakrishna and Narain, to disgorge 25 per cent of their respective salaries drawn during a certain period.
- They were also prohibited from associating with a listed company or a market infrastructure institution or any other market intermediary for a period of five years.

What is Co-location?

- A colocation facility, or colo, is a data center facility in which a business can rent space for servers and other computing hardware.
- It is associated with **a facility where a third party can lease a rack/server space along with other computer hardware.**
- This facility provides infrastructure such as power supply, bandwidth, and cooling for setting up servers and storage of data.
- When it comes to NSE, there are dedicated spaces in the exchange building(NSE), right next to the exchange servers, where high-frequency and algo traders can place their systems or programs.
- **With the co-location facilities being extremely close to stock exchange servers, traders here have an advantage over other traders** due to the improvement in latency (time taken for order execution).

But the co-location is **mainly used only by institutional investors and brokers** for their proprietary traders and **Retail investors have negligible presence here.**