Fintech Friday: SEBI's 2025 Order against BSE: A Wake-Up Call for Market Infrastructure Institutions (MIIs)

Introduction

Recently, SEBI issued an adjudication order imposing a penalty of ₹25 lakh on Bombay Stock Exchange (BSE) for regulatory breaches revealed during an inspection covering the period Feb 1, 2021 to Sep 30, 2022. The case offers critical insights into the responsibilities of MIIs, particularly in an era of growing digital dependencies and algorithm-driven markets.

The Crux of the Order

SEBI found that BSE:

- Allowed selective early access of corporate announcement data to paid clients and its own Listing Compliance Monitoring (LCM) team.
- Failed to monitor or discipline brokers involved in frequent client code modifications (CCMs).
- Did not properly supervise "error accounts", which can be misused to shift trades.
- Allowed CCMs between unrelated institutional clients without due diligence.

Why It Matters?

In a world increasingly driven by milliseconds and machine-readable feeds, data latency and access sequencing are more than technical issues — they directly impact market fairness. The order underlines that even inadvertent data dissemination architecture can violate Regulation 39(3) of SECC Regulations and was also alleged to violate Regulation 3 of the PIT Regulations, although SEBI found that allegation unsubstantiated.

Technical Anatomy: The BSE Dissemination Flaw

- **Process Flow**: Corporate announcements uploaded via the listing centre reached multiple databases (DB2, DB2A, DB2B).
- **Issue**: Paid clients (via leased lines or API) and internal LCM teams could access announcements faster than general public via BSE's website.
- **Result**: Possibility of information asymmetry, even if for milliseconds.

Though BSE claimed time gaps were minimal and technical (e.g., network sync delays), SEBI held the architecture itself created unequal access. SEBI considered it a breach of its fiduciary duty as a MII.

Client Code Modification (CCM) Lapses

- BSE did not define "frequent modifier" thresholds.
- Failed to enforce disciplinary action based on repetition.
- Relied too heavily on brokers' self-confirmations.

- Inspections were infrequent (once in 3 years), leaving systemic gaps.

SEBI found this inadequate to enforce the SEBI Circulars from 2011[CIR/DNPD/6/2011] and 2014[CIR/MRD/DP/29/2014] meant to prevent abuse of CCMs, particularly for trades that can be masked as "genuine errors".

Legal Arguments & SEBI's Rebuttal

BSE's Claims:

- These were first-time/technical violations—so only administrative action should be taken.
- SEBI's own Enforcement Manual allows for soft measures for minor lapses.
- No evidence of UPSI misuse or market harm.

SEBI's Stand:

- Regulatory lapses—especially from an MII—must be strictly assessed.
- Violations of fair access and surveillance obligations are serious.
- Even if there was no abuse, the potential for misuse was built-in.

LK Analysis:

- **Data Dissemination Design should strive to be Neutral**

    System architecture can inadvertently create preferential access, and platforms must validate dissemination fairness in real-time.

- **Surveillance is Not Passive**

    MIIs and platforms must move beyond periodic audits to real-time and continuous monitoring, particularly for trade modifications and error accounts.

- **Regulatory Technology Opportunity**

    The enforcement raises a strong use case for automated compliance tools that can monitor data flows, CCM flags, and timestamp anomalies.

- **Legal Compliance does not equal Minimal Compliance**

    SEBI expects MIIs to uphold not just the letter but the spirit of transparency and market integrity, even where explicit statutory requirements (e.g., RSS feeds) are missing.

- **First-Time Defaults Still Actionable If Serious**

    Internal policies like SEBI's enforcement manual are not shields in law.

Contact Us

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