
THE NSE CO-LOCATION SCAM: A WAKE UP CALL FOR CORPORATE GOVERNANCE

Gopa Nanda, KIIT School of Law

ABSTRACT

Market manipulation at India's largest stock exchange, the National Stock Exchange of India, is the focus of the NSE co-location fraud. The NSE's goal of demutualizing exchange governance and its comprehensive transparency-based methodology may have been violated because select players reportedly received market price information before the rest of the market, allowing them to outperform the market. It is alleged that insiders worked together to rig the NSE's algorithm trading and the use of co-located servers, earning a number of brokers significant profits. The Securities and Exchange Board of India (SEBI) received the first anonymous complaint via a whistleblower's letter in January 2015, revealing this extensive market fraud. According to the whistleblower, trading participants collaborated with exchange authorities to benefit from prior knowledge. Over the course of five years, it is anticipated that the total amount of defaults through the NSE's high-frequency trading (HFT) will exceed \$500 billion. The Central Bureau of Investigation (CBI), the Securities and Exchange Board of India (SEBI), and the Income Tax Department are investigating the NSE co-location case, as well as the involvement of officials from NSE and SEBI, NSE's former and current executives and brokerages, and the significance of corporate governance in relation to this case.

Keywords: NSE, Scam, SEBI, brokerage, corporate governance.

Introduction:

Scams in the securities industry are not new, but they have far-reaching effects that affect every community. Securities market frauds of this kind are often the result of greedy individuals who are in dominant positions and want to make a lot of money.

Market imbalances are frequently the result of these schemes. As a result of such frauds, stock markets encounter anomalies that have a significant impact on the economy, delay economic growth, frequently weaken the economy, and prevent foreign investment, which typically occurs through stock exchanges. International investors are looking for other viable options to invest and grow their money in a nation or economy they believe to be more trustworthy as a result. This was the case with the 2022 NSE scandal, which prompted us to consider the peculiarities of Indian corporate governance that contributed to the NSE's Management and Board scam. Scams in the securities industry are nothing new, but their consequences affect every society. Securities market scams are typically the result of greedy individuals attempting to construct tunnels in order to gain substantial wealth. These strategies typically lead to market imbalances. As a result of these frauds, there are anomalies in stock markets. These anomalies have a big effect on the economy, slow economic growth, which usually hurts the economy, and foreign investment disappears, which usually happens through stock exchanges. As a result, foreign investors are looking for other viable options for growing their money and investing it in a nation or economy they believe to be more trustworthy.

Background of NSE:

In January 2010, co-location services were made available to NSE members. For a fee, members could rent out their servers to the Exchange. They were able to access the exchange's trading engine's buy and sell orders more quickly as a result of this. A configuration known as "co-location" is one in which the broker's computer is in the same area as the server for the stock exchange. In addition, high-frequency trading, also referred to as algorithmic trading, involves the use of electronic systems that have the potential to execute thousands of stock market orders in less than a second. When compared to the tick-by-tick data broadcast received by a user in a co-location facility, retail investors watching prices face a delay.

Before approving the facility, the SEBI did not, which is unusual, issue a discussion paper to gather feedback from the market. On the NSE, there are no public records of HFT transactions. SEBI ought to communicate with the Technical Advisory Committee regarding such market

developments. However, no message from SEBI indicating that it had approved all exchanges was received. At the time, Ravi Narain was managing director of the NSE, and C. B. Bhave was chairman of SEBI. According to the NSE's 2009–10 annual report, "the exchange has given members with a co-location facility for low latency high frequency trading" in line with global trends. The co-location data center is a cutting-edge facility that meets international standards.¹

Several individuals associated with HFT reportedly banded together and operated in coalition for approximately four years, from 2010 to 2014, overriding norms and restrictions imposed by SEBI, the market regulator. This led to the start of the co-location lawsuit. An unidentified source familiar with SEBI's investigation stated, Access to co-location facilities and HFT trading allowed the chosen brokers a differential advantage, such as presentation of market data and accessing order book prior to order execution.

Unfold story of Chitra Ramkrishna:

Chitra Ramkrishna, the former CEO and MD of the NSE, India's largest stock exchange with a combined market capitalization of nearly \$4 trillion, was guided in 2013 by a yogi living in the Himalayas for the appointment of Anand Subramanian as the exchange's chief operating officer (COO). Subramanian was not well-known in the industry. NSE spent 5 crore on the appointment. Following an investigation into Ramakrishna, the NSE, and four others, SEBI issued its final decision on Friday based on the findings. The order, which was made public on Friday, can be found on the website of the market regulator. The unnamed yogi was referred to by Ramkrishna as "Sironmani," which means "the exalted one," and he shared information with him about the NSE's five-year predictions, financial statistics, the dividend ratio, business objectives, and the agenda for a board meeting. He even consulted him. In 2016, Ramkrishna was fired from the NSE for her role in the co-location and algorithm trading scandal and for using her position of authority improperly when Subramanian hired her. The investigation found that Ramkrishna ran NSE without being caught. Her practices were never challenged by senior management, the board of directors, or promoters, which included banks and large government agencies.² Instead, when Ramkrishna left the NSE, she received Rs 44 crore in salaries and dues that had not been paid. According to the findings of the SEBI investigation,

¹ Ipleaders, NSE Receives 1100 Crores Penalty – Did It Deserve It?, <https://blog.ipleaders.in/nse-receives-1100-crores-penalty/>, (dec 17, 2022, 2:30pm)

² Palak shah, The curious case of former NSE CEO Chitra Ramakrishna and the invisible hand of a yogi who virtually ran India's largest exchange, [Thehindubusinessline](https://www.thehindubusinessline.com/markets/stock-markets/inside-the-mind-of-chitra-ramkrishna-she-took-guidance-from-an-unknown-himalayan-yogi-to-run-nse/article65037214.ecc), (Feb 12, 2022, 06:12 pm) <https://www.thehindubusinessline.com/markets/stock-markets/inside-the-mind-of-chitra-ramkrishna-she-took-guidance-from-an-unknown-himalayan-yogi-to-run-nse/article65037214.ecc>

Ramkrishna communicated via email for nearly two decades with the yogi, whom she had never met, and he advised her to name Subramanian as the second in command of the NSE. "It would appear that their spiritual talents do not require such physical coordinates" she explained. Subramanian was promoted to Chief Strategic Advisor at NSE on January 18, 2013, at a salary of 1.68 crore per year, up from 15 lakh, as claimed, at Balmer Lawrie. Ramkrishna authorized a 20 percent raise for Subramanian in March 2014, bringing his compensation to 2.01 crore. His cost to the company had increased to 5 crore by 2015, and he had been given a cabin right next to Ramkrishna and first-class international travel. The yogi's instructions were followed exactly. Subramanian should even be requested to attend only for three days and work the remaining days, according to an email from an unidentified yogi, instead of working the 5-day workweek stipulated in the contract.³

Following the disclosure of all of this, the SEBI issued a directive stating that it is extremely unusual for the whip of an arbitrary and dictatorial regime to make any employee fear raising a complaint against its top leader for fear of penalties. This is clear from the numerous unidentified complaints that SEBI received against Ramkrishna, which led to these proceedings and the discovery of additional irregularities. Despite this, SEBI only handed Ramkrishna a small sentence. The NSE has been ordered by SEBI to forfeit the excess leave encashment of 1.54 crore and the delayed bonus of 2.83 crore. Ramkrishna is now prohibited from participating in capital markets for a period of three years.⁴

The NSE Scam:

In 2009, the National Stock Exchange began charging a charge for co-location services provided to select brokers. Co-location services meant that the National Stock Exchange would enable some brokers to maintain their servers on the National Stock Exchange's facilities. By co-locating the computers, these brokers would obtain pricing information seconds before the rest of the market. In addition, the brokers had paid extra money to lay down black fibre links. Dark fibre cables deliver data at a quicker rate than regular lines. This is due to the fact that

³ TIMESOFINDIA.COM,NSE co-location scam: The story so far,THE TIMES OF INDIA,(Mar 10,19:53) <https://timesofindia.indiatimes.com/business/india-business/nse-co-location-scam-the-story-so-far/articleshow/90132273.cms>

⁴ TIMESOFINDIA,Explained: The NSE scam, the 'faceless yogi' and trips to tax heaven,THE TIMES OF INDIA,(Feb 21,2022,11:32), <https://timesofindia.indiatimes.com/business/india-business/explained-the-nse-scam-the-faceless-yogi-and-trips-to-tax-havens/articleshow/89717719.cms>

they are dedicated lines, where the lack of other traffic enhances data transmission speed by a fraction of a second.

This may not appear to be a huge concern, but it is. This is due to the fact that many of these brokers used algorithmic trading tools. As a result, they were not manually placing transactions. This meant that even if they received knowledge fractions of seconds before the others, they could exploit technology and swiftly place advantageous bets based on their information advantage. Brokers were generating millions of rupees every day by using co-location and algorithmic trading. This went on for a few years till a whistle-blower filed a letter to SEBI, exposing the issue to the outside world. Many detractors have also claimed that co-location is not lawful in India. However, this is not possible.⁵

The whistle-blower claims conspiracy between NSE officials, brokers, and the technology company. Investigators have not found any conclusive evidence. The payment agreement between the brokers and the software vendor, on the other hand, is exceedingly unique. It is common knowledge that stock trading is a very speculative industry. This is why software businesses that manufacture stock trading tools provide licence in exchange for a predetermined charge. They are more concerned about producing a set quantity of money rather than dealing with market fluctuations. In one example, however, the software vendor was so confident in the outcomes that they licensed the programme on a profit-sharing basis.

What caused that to happen?

According to the SEBI investigation, which was carried out by means of a Technical Advisory Committee, the broker was assisted in some way by NSE employees. This stock broker would not have been able to first connect to the secondary server of the NSE between December 10, 2012 and May 30, 2014.

He frequently connected after everyone else. Nine NSE employees were cleared by SEBI in 2020, despite the fact that numerous NSE employees were mentioned in the SEBI order of 2019.

SEBI Investigation:

1. SEBI requested that NSE conduct a forensic assessment of its systems and deposit the

⁵ Serah Sudhin, The NSE Co-Location Scam, 2019, Volume 4, International Journal of Advanced Research and Development, 15(2019)

whole proceeds from its co-location facilities in an escrow account in 2016. Deloitte was charged with carrying out a forensic examination of NSE's systems.

2. In 2019, SEBI issued an order requiring NSE to pay 625 crore plus 12% interest and barring NSE from soliciting funds from the stock market for six months.⁶
3. Ravi Narain and Chitra Ramakrishna, who were in charge of the situation at the time, were ordered to repay 25% of their income for a specific term, and a punishment order was issued against those who were deemed to be gaming the system.
4. A penalty of one crore was levied on NSE in a recent order issued on February 10, 2021, and a penalty of 25 lakh each on Ravi Narain and Chitra Ramakrishna.
5. SEBI issued the final decision in the National Stock Exchange of India (NSE) case in February 2022, highlighting the need for a regulatory reform in corporate governance requirements and stock exchange operations in India. SEBI received a whistleblower report in December 2015 accusing Chitra Ramkrishna, the then-MD and CEO of NSE, of multiple corporate governance violations. During the probe, SEBI discovered that the former MD and CEO had communicated classified NSE information with an unknown individual. When SEBI dug deeper into the situation, Ramkrishna confessed that she was being coached by a mystery "yogi" in making crucial business choices for the NSE. The investigations indicated that when Ramkrishna was promoted to MD and CEO, she renamed Anand Subramanian as her adviser and Group Operating Officer (GOO). Surprisingly, Subramanian was given exorbitant remuneration and privileges that were unheard of in the NSE and even the industry in general. According to SEBI's findings, there were no records regarding Subramanian's employment at NSE. The investigations indicated that when Ramkrishna was promoted to MD and CEO, she renamed Anand Subramanian as her adviser and Group Operating Officer. Surprisingly, Subramanian was given exorbitant remuneration and privileges that were unheard of in the NSE and even the industry in general. According to SEBI's findings, there were no records for Subramanian's job.⁷

⁶ Ipleaders, NSE Receives 1100 Crores Penalty – Did It Deserve It?, <https://blog.ipleaders.in/nse-receives-1100-crores-penalty/>, (dec 17, 2022, 2:30pm)

⁷ ET Bureau, Co-location scam jigsaw and how Sebi cracked the code, The Economic Times, (May 01, 2019, 09:09 AM) <https://economictimes.indiatimes.com/markets/stocks/news/co-location-scam-jigsaw-and-how-sebi-cracked-the-code/articleshow/69123267.cms>

6. In 2018, a new set of SECC Regulations was established, which stated that any activity conducted under the SECC Regulations 2012 will be assumed to have been undertaken in accordance with the amended regulations. Concerning the identification of the "yogi," the CBI has established that Subramanian was, in fact, the yogi. Subramanian was detained by the CBI in February 2022 for refusing to cooperate in the investigation. Following an investigation, SEBI determined that Ramkrishna, Subramanian, and numerous other NSE personnel were guilty and liable for a penalty. It was discovered that the compensation provided to Subramanian at NSE was arbitrary and unreasonable throughout, a financial misdeed on Ramkrishna's part.
7. Ramkrishna received a 3 crore punishment, while Subramanian received a 2 crore penalty. Furthermore, for three years from the date of the order, Ramkrishna and Subramanian were barred from associating with any market infrastructure institution or intermediary registered with SEBI. The NSE was also ordered to pay a 2 crore penalty and to desist from introducing a new product for six months from the date of the SEBI ruling.

Role of brokerages:

Investigators are looking into the books of the brokerage firms that are thought to have been involved in the National Stock Exchange co-location scheme. According to people in the know, they are looking into whether these brokerage firms experienced an unusual increase in turnover during the alleged fraud and whether any of the gains were used as bribes to NSE officials in exchange for preferential access to the exchange's computer servers. People claim that instances of mirror contracts and the use of hawala networks to circumvent local laws and enable brokers to take positions in foreign exchanges have been discovered through investigations into the affairs of one of the accused brokerages, OPG Securities, and the subsequent arrest of its managing director, Sanjay Gupta.⁸

Former senior NSE executives Chitra Ramkrishna and Anand Subramanian are among those detained in the case. All of them had denied any wrongdoing. At least two central agencies are looking into the alleged anomalies: the CBI and the department of income tax

⁸ Rashmi Rajput ,NSE co-location scam: Lens on role of brokerages,The Economic Times,(Jul01,2022,12:24AM), <https://economictimes.indiatimes.com/news/india/nse-co-location-scam-lens-on-role-of-brokerages/articleshow/92582420.cms>

The goal of the investigation is to figure out how much money these brokerages made from having privileged access. So, their turnover over the course of the investigation is being looked at to see if there was a small increase in income that they can't explain.

The brokers-NSE nexus came to the forefront as a result of the co-location controversy. OPG Securities was the broker firm that benefited the most from the scandal, receiving numerous login IPs and access from secondary servers. OPG Securities and other businesses benefited from preferential access rather than other brokers and their clients. The remaining 22 brokers who repeatedly logged in early on the NSE servers include Alpha Grep, SMC Global, Barclays Securities, Kredent, Pace, Religare Securities, NYCE, Motilal Oswal, Kotak Securities, DE Shaw, Crimson, Advent, Mansukh Stock Brokers, JM Global, AB Financial, Indus Broking, and Quant Broking. 62 brokerages have benefited from preferential access through the NSE's HFT platform, according to forensic audit studies conducted by EY India, Deloitte Touche Tohmatsu LLP, and ISB, while SEBI has currently only served the SCNs to three firms: Way2Wealth, GKN Securities, OPG Securities, and its partner firm. The CBI investigation found that OPG Securities, working with unidentified NSE personnel, was the first to access the NSE servers ninety percent of the time. OPG Securities was granted access to the co-location facility from 2010 to 2014, according to the TAC report from SEBI. This allowed it to connect to the NSE server before any other company and obtain data before any other broker in the market. In its show-cause letter, SEBI stated that the company made a profit of approximately \$250 million.

The whistleblower says that OPG Securities alone used co-location to make deals on the NSE worth more than \$60 billion. Additionally, FIIs and FPIs were given access to the "order book" of the exchange, which made it possible for them to profit illegally from the stock market. The trading software was provided by Omnesys Technologies, and the fundamental technology was provided by OPG Securities. In his letter, whistleblower Ken Fong mentions Omnesys, a front-end technology provider based in Bangalore. Omnesys offered trading software to NSE members and is said to have legally benefited from its ability to access the exchange's computers first. The whistleblower claims that Omnesys set up profit-sharing agreements with clients because it was so confident in its early-bird strategy. The technology was provided to NSE members for a profit, and the NSE's wholly owned subsidiary purchased a 26 percent stake in Omnesys at a significant discount. Omnesys Technologies had Chitra Ramakrishna, the NSE's then-deputy managing director, on its board, according to company registry filings. The whistleblower stated in his initial letter, dated January 14, 2015, that Omnesys was the

market leader, and that its DMA product was very popular on the institutional desk. This is important because the NSE worked with Omnesys for a long time and was their second-largest shareholder.

Accountability of corporate governance in NSE scam:

Knowing the concept of corporate governance would make it much simpler for us to comprehend the reason and preventative measures that can be taken in the future to prevent similar financial crimes in order to comprehend the accountability of corporate governance in the NSE scandal. A set of regulations and laws that help a company achieve its goals is known as corporate governance. Every business owes something to its shareholders and stakeholders the promoters, directors, employees, and customers of the company. Management and the board of directors must be accountable to the promoters and shareholders of the business in order to carry out these responsibilities honestly. The NSE 2022 fraud involved significant legal violations, including the blatant breach of the NSE's institutional structure outside of the confines of these tasks by the disclosure of sensitive information from the CEO to an unidentified individual.⁹

The government made an effort to address the issue of corporate governance to the point where they ensured the real return of profits to financiers and the flow of large sums of cash to businesses. However, this does not imply that the corporate governance issue has been completely resolved. Economic and legal structures that can be influenced by politics are known as corporate governance performance. A straightforward agency strategy, corporate governance is sometimes referred to as the separation of ownership and control. The manner in which a company's management functions is influenced by corporate governance. The public disclosure of the NSE 2022 fraud cast a significant shadow over the state of corporate governance and the actual facts surrounding the company's power corridors.

The major governance flaws at the NSE demonstrate that even in so-called professionally operated, promoter-driven organizations, wrongdoing can occur. The NSE had established itself as an independent national public institution that was immune to criticism. To counterbalance the responsibilities of the chairman and the CEO, it is evidently time to think about giving these organizations only executive chairs. A corporate structure that distributes authority rather than focuses it would act as a check on the kinds of appointments made at the

⁹ Valan A, NSE's Co-location Scam – Reflects the Need for Checks and Balances in Corporate Governance, NLUJ Law Review, (Aug 2, 2022) <http://www.nlujlawreview.in/nses-co-location-scam/>

NSE, where such a key person ended up with unchecked power. It is regrettable that the regulator has softened its decision to differentiate between chairman and MD roles.

Ramakrishna was given permission to run the organization in her own way because the SEBI ruling stated that she had the trust of the board. With the assistance of EY's findings, SEBI's 190-page judgment has revealed the irregularities that took place, essentially favors given to selected brokers who were granted access to co-location servers and thus had access to data before others. It is troubling that Ramakrishna reportedly used an unapproved email account to send "an unknown individual" confidential corporate information, such as HR rules, financials, and communications with regulators. Clearly, more surveillance is required. The organization's operations will not be hampered by the new regulations; rather, they will ensure that crucial business and appointment decisions are made. Furthermore, it would be well worth it to order a second forensic investigation due to the extent of the misconduct and the total breakdown of corporate governance. A brand-new probe might find something that the previous ones missed and help fill in any gaps. It may also be beneficial to include some of the investigating organizations because they may uncover previously unknown information and roles in this incident. We need to take this error very seriously in order to prevent any CEO from doing it again.

Importance and structural problem in corporate governance:

The management and governance practices of a company are referred to as "corporate governance." Corporate governance is defined as the "procedures and processes according to which an organization is directed and controlled" by the Organization for Economic Co-operation and Development (OECD). When there are corporate frauds, the term is brought to attention. Ethical and accountable corporate management are required by the Corporate Governance and Code of Corporate Governance. Not only are shareholders and the general public impacted by corporate governance best practices, but the company itself depends on them. Value, sustainability, and long-term profits will rise as a result of adopting corporate governance. It is no longer enough for a business to just be profitable in this day and age; It must also demonstrate environmental awareness, ethical behavior, and sound corporate governance practices as examples of good corporate citizenship. The failure of the company can be attributed in part to a lack of business ethics in the governance of the company. In India, the absence of good corporate governance has led to numerous failures and scams in the business sector, such as the Satyam scam. A company's many stakeholders shareholders, senior

management, customers, suppliers, financiers, the government, and the community must all be balanced in order for corporate governance to be effective.

The structural issue stems partly from the selection process for board members and partly from the absence of sanctions for directors who fail to fulfill their responsibilities. Top management chooses board members. Board memberships in prominent organizations and institutions are attractive, lucrative, and prestigious. There is every incentive for board members to nod in agreement with management. There is little chance of an active challenge to management as long as the top management selects all board members or has the ability to influence their selection. Diversity in the selection of board members is essential if we are to effect real change.

Reason co-lapse of corporate governance:

1. It is clear that the NSE's management was a puppet of the CEO. The SEBI chairman invited certain NSE officials to SEBI headquarters and exposed Chitra Ramakrishna's wrongdoing; however, rather than pursuing the truth, the NSE officials ignored the information, resulting in mismanagement and neglect of duty. The NSE board later cleared Chitra Ramakrishna, which the Supreme Court later overturned.¹⁰
2. In order to conceal information from authorities, the Board of Directors, whose job interests and loyalty should align with the public rather than the executives, has engaged in a massive cover-up. The Board of Directors' role is being questioned. Due to the sensitive nature of the matter and the need for secrecy, the board decided not to discuss Mr. Subramanian's hiring anomalies during board meetings.
3. In order to avoid the required legal mandate and accountability, the former MD, Mrs. Chitra Ramakrishnan, appointed Anand Subramanian AS, who was unqualified for a top management position. She also gave him key management and operational decisions without designating him as a Key Managerial Personnel (KMP). Anand Subramanian, according to the allegations, began his employment with Chitra Ramakrishna as an advisor, but he was quickly promoted to Chief Operating Officer (COO). At such a senior position without adequate banking experience, Anand

¹⁰ Harshvardhan Korada, Vasanth Rajasekaran, NSE scam: A wake up call for corporate governance, THE HINDU businessline (March 06, 2022, 08:50 pm) <https://www.thehindubusinessline.com/business-laws/nse-scam-a-wake-up-call-for-corporate-governance/article65195539.ece>

Subramanian was withdrawing a salary of more than Rs 4 crore per year, far more than the majority of senior NSE employees.

4. There is convincing evidence that the Independent Directors did not do so on purpose, despite the fact that their job is to act in the public interest. Despite having full knowledge of the NSE's co-location scandal and associated mismanagement, the Independent Directors in this instance did not report to the SEBI or initiate the necessary proceedings against the Board. It's possible that fundamental flaws in the statutory framework are to blame for IDs' inability to monitor the Board's and Management's authority.
5. The Chief Revenue Officer, who is obligated to report any incident directly to the regulator (SEBI), did not carry out his responsibilities; This is the whole problem with corporate governance: individuals' loyalty to the CEO prevents them from using the institutional mechanism in the structure.
6. A lack of internal checks and balances led to an ineffective Board, the sharing of sensitive information, and Independent Directors failing to notify SEBI of mismanagement, which ultimately led to the breakdown of corporate governance. Subramanian received extraordinary privileges and compensation that were unheard of in the NSE or even the industry as a whole.

Steps corporate governance should to improve itself:

1. Therefore, it is time to reevaluate the practice of giving these businesses only executive chairs in order to balance the responsibilities of the chairperson and the CEO. The types of appointments made at the NSE, where such a significant individual ended up with uncontrolled power, would be checked by a corporate structure that distributes authority rather than concentrates it. It is regrettable that the regulator has softened its decision to differentiate between chairman and managing director roles.
2. The SEBI fined Chitra Ramakrishnan and Anand Subramanian 5cr and barred the NSE from offering new services for six months after the scam was exposed. To prevent future security market fraud, the regulatory framework needs to include more stringent penalty clauses and criminal procedures, even though the penalty imposed by SEBI was inadequate. The current corporate governance policy and legal framework is out of date. Fundamental changes in corporate governance are needed. A new policy should be

drafted to support, encourage, and safeguard whistle blowers in light of these modifications.

3. It took SEBI 7 years to identify the major criminals in the NSE scandal. According to CBI findings, SEBI authorities were aware of the NSE's mismanagement but did nothing about it.. It is SEBI's responsibility to guarantee that independent directors play an active role in management. In the NSE case, it was discovered that even SEBI officials paid payments to hide information about NSE misbehavior.
4. Regulators must hold themselves accountable. A group of prominent people should conduct independent audits of all regulators on a regular basis. The regulator's performance in relation to its objectives must be evaluated in audits. A performance evaluation of the corporation's board of directors is also required. Regulators must have clear roles, and Board members must be held accountable for any wrongdoing within the company.
5. A wide range of structural sanctions, such as director removal from the board, ought to be available to regulators. Regulators should try to strike a balance between the need for best practices and accountability and the need for startup flexibility. Regulators ought to be given the authority to conduct unannounced audits of corporate governance. This would not only be a proactive risk reduction measure, but it would also be helpful.
6. Independent directors are critical in preventing the chairman's monopoly on the board.
7. Management should nominate 50% of independent directors through a competent system, with stakeholders and employees choosing the remaining 50% through appropriate voting. Top management should not select more than fifty percent of independent directors. In addition, it is crucial that the regulator quickly appoints new IDs with good reputations to the board and establishes an ID audit committee to ensure that they respond quickly to protect the company's interests.¹¹
8. There will be very little chance of an aggressive challenge to management as long as senior management chooses board members or has influence over them. No more than half of the independent directors can be chosen by senior management. The remaining

¹¹ Ipleaders,2022 NSE scam and lessons to be learned regarding corporate governance,ipleaders.in <https://blog.ipleaders.in/nse-receives-1100-crores-penalty/>,(dec 22, 2022,6:30pm)

choices must be made by a wide range of stakeholders, such as banks, small shareholders, employees, and so on.

Conclusion :

The paper critically examines stock exchange corporate governance. We are aware of the economic consequences of poor Corporate Governance. Going through the events that led to the collapse of corporate governance makes it much simpler to comprehend and identify solutions for effective corporate governance on stock exchanges. By disregarding the significance of responsibility to stakeholders and regulators, abuse of power by the CEO and Board of Directors, as well as suppression of information, have led to concerns about corporate governance, which is contrary to how it operates. The fact that the former MD of NSE, who lacked expertise or experience, was appointed as the CSA and received a higher salary than the KMPs demonstrates the legislative loophole that the BOD frequently exploits to make arbitrary appointments. In this regard, Sections 203(2), 197 of the Companies Act, and Section 5 of the Companies Rules shall be re-examined, bringing all appointments under regulatory scrutiny. Despite being fully aware of it, SEBI's final order did not address the confidential data leak from NSE. As a result, it is important to hold SEBI accountable for its decisions by conducting an independent audit on a regular basis to evaluate the regulator's performance and reporting system.¹²

Furthermore, the erroneous nomination of Mr. Anand Subramanian and the disclosure of secret information to a third party sparked a new discussion about the long-term viability of corporate governance, which can only be addressed through business institutional reforms. At that level, corporate governance is not completely addressed, but it can certainly be improved. After that, Chitra Ramakrishnan and Anand Subramanian were banned by SEBI from working with any market infrastructure. They were also fined three crores and forfeited 1.5 crores in leave-in-catchment and 2.3 crores in deferred bonus.

¹² Valan A, NSE's Co-location Scam – Reflects the Need for Checks and Balances in Corporate Governance, NLUJ Law Review, (Aug 2, 2022) <http://www.nlujlawreview.in/nses-co-location-scam/>