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Regulating the Unseen: Dark Liquidity, Algorithmic Trading, and the Limits of SEBI's Disclosure Regime

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ABSTRACT

Indian securities law does not recognise the dark pool as a category of trading venue: pre-trade transparency is mandated on every recognised exchange, and off-exchange crossing networks of the kind permitted under United States Regulation ATS or the European Union's MiFID II framework have no domestic equivalent. This article argues that the absence of a formal dark-pool category has obscured a functional equivalent that has grown inside India's own algorithmic trading ecosystem. Individual orders placed through broker-provided Application Programming Interfaces are visible on the exchange tape at the moment of execution, but the strategy that connects those orders across time, product segments and counter-parties is not disclosed to the regulator in real time. The result is a form of dark liquidity created not by a hidden venue but by an undisclosed pattern: information asymmetry that arises after the fact rather than before it. The interim order passed by the Securities and Exchange Board of India against Jane Street Group in July 2025 is used as a case study. SEBI's own account of that matter shows that the manipulative pattern it eventually found was reconstructed from two and a half years of trading logs across the cash, futures and options segments, and was not apparent from either the exchange tape or the disclosures available under SEBI's February 2025 circular on safer participation of retail investors in algorithmic trading. Using doctrinal analysis of the February 2025 circular, the exchange operational circulars issued under it, and the Jane Street interim order, the article contends that India's algo-trading framework regulates the messenger, namely the broker and the Application Programming Interface, but not the message, namely the cross-segment strategy itself. It draws a comparison with the volume-based transparency thresholds used for dark pools under MiFID II and argues for a strategy-level, cross-segment audit trail obligation, tied to the existing unique Algo ID architecture, as a proportionate means of closing the gap without displacing the principal-agent structure SEBI has already built.

Keywords: *Dark liquidity, algorithmic trading, SEBI, market transparency, cross-segment surveillance, Jane Street*

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I. Introduction

The dark pool, in the sense understood in the United States and the European Union, does not exist in Indian securities law. Every recognised stock exchange in India is required to disseminate order book depth before a trade is matched, and no licensed venue permits a crossing network to execute away from that public order book.[1] The absence of a formally dark venue has, however, allowed a different and more difficult problem to go largely unexamined: liquidity that is dark not because it sits off-exchange, but because the strategy connecting a sequence of on-exchange orders is not visible to the regulator until it is reconstructed after the fact.

This article calls that problem functional opacity, to distinguish it from the dark pool proper. It is produced by the ordinary and lawful architecture of algorithmic trading rather than by a hidden venue: an algorithm may route hundreds of individually visible orders across the cash, futures and options segments in a pattern that is only manipulative, or only informative of concentration risk, when read as a whole. The Securities and Exchange Board of India's interim order against Jane Street Group, passed on 3 July 2025, is the clearest illustration to date. SEBI's own account states that the pattern it eventually identified was drawn from an examination of trading logs across eighteen expiry-day sessions spanning January 2023 to March 2025, an exercise that took its data science team a substantial period to complete.[2] No provision of Indian securities law required that cross-segment pattern to be disclosed, by the trading entity or by the exchanges, at the time it occurred.

This article asks whether SEBI's current algorithmic trading framework, built principally around the broker-as-principal structure introduced in February 2025, addresses this form of opacity, and if not, what a proportionate strategy-level disclosure obligation would look like. It proceeds in four parts. Part 2 explains why India has no dark pools in the formal sense and locates the real transparency gap in strategy-level rather than order-level disclosure. Part 3 sets out SEBI's existing algorithmic trading architecture. Part 4 examines the Jane Street episode as an illustration of what that architecture does not capture. Part 5 draws a limited comparison with the European Union's volume-based dark pool caps and proposes a strategy-level audit trail obligation calibrated to the existing Algo ID system.

[1] Securities Contracts (Regulation) Act, 1956, No. 42, Acts of Parliament, 1956 (India); see Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 (India) (requiring recognised stock exchanges to maintain an open, price-time priority trading system).

[2] Securities and Exchange Board of India, Interim Order in the Matter of Index Manipulation by Jane Street Group, WTM/AB/ISD/ISD-SEC-4/31896/2025-26 (July 3, 2025) (India) [hereinafter Jane Street Interim Order].

II. WHY INDIA HAS NO DARK POOLS, AND WHERE THE REAL GAP LIES

A dark pool, in its conventional sense, is a trading venue that permits participants to submit orders without pre-trade disclosure of price or size, with the trade reported to the public tape only after execution. United States law permits this through the Alternative Trading System registration route, and the European Union permits it subject to a double-volume cap under MiFID II, which suspends dark trading in an instrument once dark volumes exceed specified thresholds of total trading in that instrument.[3] Indian law contains no equivalent registration category. The Securities Contracts (Regulation) Act, 1956 and the regulations made under it contemplate trading only on recognised stock exchanges, each of which is obliged to maintain an open, price-time priority order book.

It would therefore be inaccurate to describe any feature of the Indian market as a dark pool. The more precise claim is narrower: that the transparency the exchange order book provides is transparency at the level of the individual order, not at the level of the strategy that generates a sequence of orders. An order to buy a fixed quantity of a Bank Nifty constituent stock at a stated price is visible to every participant the instant it is placed. Whether that order is the seventh in a sequence of twenty orders placed by the same entity across three different market segments within an hour, executed with the object of moving an index level ahead of a corresponding options position, is not something the order book, or any disclosure presently required of algorithmic traders, reveals.[4] That is the sense in which liquidity generated by a coordinated algorithmic strategy can be functionally dark even though every constituent order is technically lit.

This distinction matters for regulatory design. A dark-pool problem is addressed by regulating a venue: requiring registration, imposing volume caps, or mandating post-trade reporting within a fixed window. A strategy-opacity problem cannot be addressed at the venue level at all, because the venue is already fully transparent; it must be addressed at the level of the trading entity's own record of what its algorithm was doing and why. The remainder of this article examines whether SEBI's regulatory response has been designed with this distinction in mind.

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[3] Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments (MiFIR), art. 5, 2014 O.J. (L 173) 84 (double volume cap mechanism for dark trading); 17 C.F.R. § 242.300 et seq. (2024) (Regulation ATS, United States).

[4] See generally SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/0000013 (Feb. 4, 2025) (India) (establishing order-level traceability through Unique Algo IDs without a corresponding strategy-level disclosure requirement).

 [ISSN 2581-5369]

III. SEBI'S ALGORITHMIC TRADING FRAMEWORK

SEBI issued its circular on safer participation of retail investors in algorithmic trading on 4 February 2025.[5] The circular restructures the relationship between brokers and algorithm providers: a broker offering algorithmic trading through an Application Programming Interface is treated as the principal, and any algo provider or fintech vendor using that Application Programming Interface is treated as the broker's agent.[6] Every algorithmic order routed through such an Application Programming Interface must carry a unique identifier assigned by the exchange, so that the exchange can trace an order back to the algorithm and the provider that generated it.[7] Brokers offering undisclosed or so-called black-box strategies, whose logic is not made available to the client, are additionally required to hold a Research Analyst registration, and brokers must maintain a kill switch capable of halting an algorithm's activity as a last-resort safeguard against malfunction.[8] Following representations from brokers and algo vendors, the implementation timeline was extended twice, and the framework became operative in a phased manner between October and December 2025.[9]

This is a meaningful advance in accountability. It answers the question of who placed a given order and closes the gap in which an unregistered operator could run client funds through an opaque strategy with no traceable link between the trade and its origin. It does not, however, require an algorithm provider or a broker to disclose the cross-segment logic of a strategy to the exchange or to SEBI at the time it is deployed. The Unique Algo ID identifies the source of an order; it does not describe the relationship between that order and others placed by the same source in a different segment on the same day.[10] Surveillance for a cross-segment pattern therefore remains a retrospective exercise, conducted by SEBI's own data science function after trading has concluded, rather than a function built into the disclosure regime itself.

IV. THE JANE STREET EPISODE AS A CASE STUDY

The interim order SEBI passed against Jane Street Group and its associated entities on 3 July 2025 illustrates the gap in concrete terms. SEBI's order describes a pattern in which the Group,

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[5] SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/0000013, "Safer participation of retail investors in Algorithmic trading" (Feb. 4, 2025) (India) [hereinafter Feb. 2025 Algo Circular].
[6] Feb. 2025 Algo Circular, *supra* note 5, § I (principal-agent structure between brokers and algo providers).
[7] Feb. 2025 Algo Circular, *supra* note 5, § I (Unique Algo ID requirement for all API-routed algorithmic orders).
[8] Feb. 2025 Algo Circular, *supra* note 5, §§ II, IV (Research Analyst registration for undisclosed/black-box strategy providers; kill switch as last-resort safeguard).
[9] SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/108 (July 29, 2025) (India) (extending implementation timeline to Oct. 1, 2025); SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/132 (Sept. 30, 2025) (India) (further phased extension).
[10] See Feb. 2025 Algo Circular, *supra* note 5 (identifier tagging operates at the level of the individual API-routed order, not the cross-segment strategy).

during the morning session of Bank Nifty expiry days, purchased large quantities of index constituent stocks and corresponding futures, in several instances accounting for a substantial share of total traded value in individual scrips, while simultaneously building short exposure in index options through the sale of call options and the purchase of put options.[11] In the closing hour of the same sessions, SEBI found that the Group's cash and futures positions were reversed in a manner that depressed the index level into the close, a pattern the order describes as consistent with the Group's options exposure benefiting from that closing move.[12]

Each constituent order in this pattern was, individually, a lawful and visible transaction on the exchange tape. What was not visible, to any participant or to the regulator in real time, was the relationship between the morning trades in the cash and futures segments and the options positions taken at the same time. SEBI's finding rested on an examination of eighteen expiry-day sessions across a period of more than two years, using cross-product data spanning equities, index futures and options.[13] That is not a description of a regulator monitoring a market in real time; it is a description of a regulator reconstructing a strategy after the fact, from a data set that any single day's disclosure obligations did not require the trading entity to characterise as a single strategy at all.

The point is not that Jane Street's conduct as alleged was proper. SEBI's order finds otherwise, invoking its powers under the SEBI Act, 1992 to freeze assets and bar the Group from the market pending final proceedings, and the Group deposited the disputed amount into an escrow account without conceding the allegations.[14] The point is structural: the mechanism that eventually caught the pattern was retrospective forensic analysis, not the disclosure architecture SEBI had itself put in place five months earlier. A cross-segment strategy of the kind alleged could, in principle, continue undetected for a considerable period under the current framework, precisely because the framework's traceability requirement operates at the level of the order and its source rather than at the level of the strategy connecting orders across segments.

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[11] Jane Street Interim Order, *supra* note 2, ¶¶ 20-45 (describing the "Intra-day Index Manipulation" pattern across cash, futures and options segments on Bank Nifty expiry days).

[12] Jane Street Interim Order, *supra* note 2, ¶¶ 46-60 (describing the "Extended Marking the Close" pattern in the closing hour of expiry sessions).

[13] Jane Street Interim Order, *supra* note 2, ¶¶ 15-19 (examination period January 2023 to March 2025 across eighteen expiry sessions, using cross-segment trading data).

[14] Securities and Exchange Board of India Act, 1992, §§ 11(1), 11(4), 11B(1), 11D, No. 15, Acts of Parliament, 1992 (India); Jane Street Interim Order, *supra* note 2 (directing escrow deposit of ₹4,843.57 crore and interim market restrictions).

V. Towards a strategy-level disclosure obligation

The European Union's response to dark liquidity offers a limited but useful point of comparison, not because Indian markets contain dark pools in the formal sense, but because the underlying regulatory technique, a threshold-based transparency trigger tied to trading activity rather than to a single order, is transferable. Under MiFID II, dark trading in a given instrument is permitted only until it crosses specified volume thresholds relative to total trading in that instrument, at which point dark trading in that instrument is suspended for a defined period.[15] The technique is not venue registration; it is an activity-based trigger keyed to a proportion of market activity.

A comparable technique could be adapted to the strategy-opacity problem identified in Parts 2 to 4. Rather than requiring dark trading to be capped, the proposal here is that any algorithmic strategy which, within a trading session, generates orders across more than one market segment above a threshold proportion of that segment's traded value, as the Unique Algo ID architecture already allows the exchange to compute in real time, should trigger a same-day cross-segment audit trail submission by the broker to the exchange, describing the strategy's logic in the terms already required of Research Analyst-registered algo providers under the February 2025 circular.[16] This would not require SEBI to create a new venue category, and it would not disturb the principal-agent structure the circular has already established. It would extend an identifier system that presently answers who placed an order to a system that also answers what the order was for, once activity crosses a materiality threshold.

Commentary on the Jane Street episode has already observed that SEBI's regulatory response has tended to be reactive rather than built into a proactive, real-time surveillance architecture, and that the February 2025 circular, despite introducing Unique Algo IDs and kill switches, did not extend to latency-neutral access requirements or per-strategy audit trails of the kind found in more developed algorithmic trading regimes.[17] The proposal advanced here is narrower than a wholesale redesign of India's market surveillance architecture. It is confined to the specific mechanism, cross-segment strategy disclosure triggered by an activity threshold, that would have made the pattern SEBI eventually found in the Jane Street matter visible during the relevant trading sessions rather than only after a multi-year forensic exercise.

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[15] MiFIR, *supra* note 3, art. 5 (double volume cap suspending dark trading in an instrument once specified thresholds of total trading volume are exceeded).

[16] Cf. Feb. 2025 Algo Circular, *supra* note 5, § II (existing disclosure obligations for Research Analyst-registered algo providers, which could be extended to a cross-segment, activity-triggered submission).

[17] See Aditi Sharma & Rohan Mehta, *SEBI's Jane Street Order: Unpacking HFT Manipulation and Regulatory Shortfalls*, IRCCL BLOG (Aug. 2025) (noting the absence of latency-neutral access requirements and per-strategy audit trails in the Feb. 2025 framework, and the reactive character of SEBI's enforcement response).

VI. Conclusion

India’s securities market has no dark pools in the sense the term carries in United States or European Union law, and any argument that it does would misdescribe the regulatory problem. The real gap lies elsewhere: in the difference between an order book that is transparent order by order and a strategy that is opaque until a regulator chooses, or is able, to reconstruct it across segments and across time. SEBI’s February 2025 circular on algorithmic trading is a substantial step toward accountability, because it makes every algorithmic order traceable to its source. It does not yet make the relationship between orders, the strategy itself, visible at the time that strategy is executed. The Jane Street interim order shows what that gap costs in practice: a pattern spanning eighteen sessions and more than two years of data, caught only through retrospective analysis. A strategy-level, activity-triggered disclosure obligation, built on the identifier architecture SEBI has already constructed, would close that gap without requiring India to regulate a venue that does not exist.

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