Page 2640 - 2651 **DOI:** *https://doij.org/10.10000/IJLMH.1111821*

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 9 | Issue 2

2026

From Manipulation to Regulation: Algorithmic Trading, the Jane Street Order and Sebi's Evolving Governance Framework for India's Derivatives Market

SOHINI BAG[1]

ABSTRACT

India's equity derivatives market is the largest in the world by contract volume, yet its structural architecture has rendered it acutely vulnerable to algorithmic manipulation. On 3rd July 2025, the Securities and Exchange Board of India (SEBI) issued a 105-page ex-parte interim order against the Jane Street Group, alleging that the firm had systematically manipulated the Bank Nifty and Nifty 50 indices across 18 expiry days between January 2023 and March 2025, generating alleged unlawful gains of INR 4,843.57 crore. The enforcement action preceded, by mere months, the full operationalisation of SEBI's February 2025 circular on the safer participation of retail investors in algorithmic trading, which took binding effect from April 1, 2026. This article examines the legal foundations of the Jane Street order under the SEBI Act, 1992 and the Prohibition of Fraudulent and Unfair Trade Practices Regulations, 2003, analyses the structural mechanisms of the alleged manipulation and critically evaluates whether SEBI's 2026 algorithmic trading framework addresses the institutional governance deficits that the case exposed. The article finds that while the framework represents a meaningful advance in retail investor protection, it leaves critical gaps in the regulation of institutional and cross-segment algorithmic conduct, and argues for a statutory definition of algorithmic market manipulation alongside direct registration obligations for Foreign Portfolio Investors deploying high-frequency strategies on Indian exchanges.

Keywords: *Algorithmic trading, market manipulation, SEBI, Jane Street, PFUTP Regulations, derivatives regulation, investor protection, high-frequency trading*

I. INTRODUCTION

India occupies a singular position in global capital markets. Its equity derivatives segment, anchored by the National Stock Exchange of India, accounts for nearly sixty percent of all

[1] Author is a Student at School of Law, CHRIST (Deemed to be University), Bangalore, Karnataka, India

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equity options contracts traded worldwide.[2] Retail participation has grown at a pace that few jurisdictions have witnessed: individual investors now represent forty-one percent of total derivative trading volumes, compared to a negligible two percent in 2018. Yet this democratisation of access has not translated into corresponding wealth creation. A study published by SEBI in July 2025 found that ninety-one percent of individual traders in the equity derivatives segment incurred net losses in the financial year 2024-25, with aggregate losses widening by forty-one percent to INR 1,05,603 crore.[3] The average individual trader lost approximately INR 1.1 lakh in a single financial year.[4]

These figures do not emerge in isolation. SEBI's own research has noted that institutional investors, equipped with access to sophisticated algorithmic systems capable of executing orders in milliseconds, gain systematically at the expense of retail counterparties.[5] The structural asymmetry between these two categories of market participants is not merely a feature of market efficiency; it carries governance and legal implications that regulators have only recently begun to address with the seriousness the problem demands.

Two regulatory events in 2025 brought this asymmetry into sharp sight. On 4th February 2025, SEBI issued "Safer Participation of Retail Investors in Algorithmic Trading"[6], establishing a comprehensive framework for the registration, monitoring and accountability of algorithmic trading strategies deployed through retail brokers. Less than five months later, on 3rd July 2025, SEBI exercised its powers under Sections 11(1), 11(4), 11(b)(1) and 11(d) of the SEBI Act, 1992[7] to pass an ex-parte interim order against four entities belonging to the Jane Street Group, a United States-based quantitative trading firm, for alleged systematic manipulation of the Bank Nifty index through high-frequency algorithmic strategies.[8]

The juxtaposition of these events is legally significant. It reveals that SEBI was simultaneously constructing a framework to govern the conduct of retail algorithms while an institutional foreign portfolio investor was allegedly conducting large-scale manipulation through a far more sophisticated class of algorithms that the new framework does not directly regulate. This article

[2] Futures Industry Association (FIA), Global Derivatives Statistics, Q2 2024 (FIA, 2024); see also Reuters, *Indian Retail Investor Losses on Derivative Trades Widened in 2024-25, Regulator Says* (Reuters, 7 July 2025).
[3] SEBI, *Comparative Study of Growth in Equity Derivatives Segment vis-a-vis Cash Market After Recent Measures* (SEBI, July 2025).
[4] *ibid*
[5] CFA Institute Market Integrity Insights, *India's Derivatives Market and Retail Investors* (CFA Institute, November 2025).
[6] Circular No. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/0000013
[7] SEBI Act, 1992, ss. 11(1), 11(4), 11(b)(1) and 11(d)
[8] SEBI, Ex-parte Interim Order in the matter of Jane Street Group and its associated entities, Order No. WTM/TPP/MRD/30/2025-26 (3 July 2025) (hereinafter "Jane Street Order").

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proceeds in four parts. Part II examines the structure of India's derivatives market and the governance risks that algorithmic trading has introduced. Part III provides a detailed legal analysis of the Jane Street order, including the manipulative strategies alleged and the statutory basis for SEBI's intervention. Part IV critically evaluates the 2026 algorithmic trading framework, assessing its design and identifying its structural limitations. Part V offers conclusions and recommendations for legislative and regulatory reform.

II. INDIA'S DERIVATIVES MARKET AND THE GOVERNANCE RISKS OF ALGORITHMIC TRADING

A. The Architecture of the Market

Algorithmic trading, in its broadest sense, refers to the automated execution of securities transactions through computer programmes operating on pre-defined parameters of price, volume and time.[9] In India, its origins lie in SEBI's introduction of Direct Market Access facilities in 2008 and the allowance of co-location services by the National Stock Exchange from 2010, which enabled institutional participants to place their servers in physical proximity to exchange matching engines, drastically reducing execution latency. What began as a tool for institutional efficiency gradually became accessible to retail investors through broker-provided application programming interfaces (APIs), giving rise to a category of participants operating automated strategies without the risk management infrastructure that institutional counterparts maintain.

The scale of this market is without global parallel. In the second quarter of 2024, more than 36.8 billion equity index options were traded on Indian exchanges, representing over two-thirds of all exchange-traded futures and options contracts traded worldwide. The concentration of activity in weekly index options, particularly on expiry days, has created a microstructure in which the turnover of options contracts routinely exceeds the turnover of underlying cash equities by factors exceeding ninety to one hundred times.[10] This disproportion creates conditions in which a sufficiently capitalised participant with positions in both the options and underlying cash markets may be able to influence index settlement prices through targeted trading in the relatively illiquid underlying segment.

[9] Securities and Exchange Board of India Act, 1992 (Act No. 15 of 1992), s. 2(h).

[10] FTI Consulting, *When Algorithmic Trading Meets Allegations of Market Manipulation* (FTI Consulting, July 2025). On 17 January 2024, the notional turnover of Bank Nifty options reached USD 1.26 trillion against only USD 3.6 billion in underlying stock trades.

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B. Governance Risks Specific to Algorithmic Conduct

Three categories of governance risk are specific to the algorithmic trading environment. The first is flash volatility, where the concentrated placement and cancellation of large algorithmic orders within fractions of a second can produce artificial price movements that mislead ordinary investors about the true state of supply and demand. The second is liquidity crowding, where human traders are systematically disadvantaged by automated systems capable of responding to market signals many orders of magnitude faster than any manual process. The third, most directly relevant to the Jane Street matter, is cross-segment manipulation, where an algorithm coordinates activity across the cash equities, futures and options segments of a market to produce a distorted settlement price in one segment while holding profitable positions in another.

The PFUTP Regulations, 2003[11] were enacted primarily with manual market manipulation in view. Their prohibition on acts that create a "false or misleading appearance of trading" or that employ "manipulative devices" is stated in terms broad enough to encompass algorithmic conduct[12] and subsequent judicial interpretation has confirmed that intent remains a *sine qua non* for establishing manipulation under Regulations 4(2)(a), (b) and (g)[13]. However, the absence of a statutory definition of "algorithmic manipulation" as a distinct category of prohibited conduct creates interpretive uncertainty when regulators seek to characterise the output of a complex algorithmic strategy as fraudulent or unfair trade practice. The Jane Street order, as examined below, represents SEBI's most extensive engagement with this question to date.

III. THE JANE STREET ORDER: ANATOMY OF ALLEGED ALGORITHMIC MARKET MANIPULATION

A. The Parties and the Examination Period

The entities named in the order are JSI Investments Private Limited, JSI2 Investments Private Limited, Jane Street Singapore Limited and Jane Street Asia Trading Limited, all wholly owned subsidiaries of Jane Street Group, LLC, a United States-based global proprietary trading firm. All four entities were registered as Foreign Portfolio Investors under the applicable SEBI

[11] SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 Last amended on December 31, 2018

[12] Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter "PFUTP Regulations"), Regs. 3(a), 3(c), 3(d) and 4(1).

[13] Nishith Desai Associates, *Regulatory Digest: Synchronised Trades and the PFUTP Regulations* (Nishith Desai Associates, 2024): intention is sine qua non for manipulation in self-trades under Regs. 4(2)(a), (b) and (g) of the PFUTP Regulations.

framework. SEBI's investigation covered the period from 1st January 2023 to 31st May 2025, with particular analytical focus on 18 identified expiry days, comprising 15 Bank Nifty and 3 Nifty 50 expiry sessions.[14]

The structural vulnerability that SEBI identified is the extreme concentration of the Bank Nifty index. Five constituent stocks account for approximately eighty-two percent of the index's weight. On a day such as 17th January 2024, one of the sessions most closely scrutinised by the regulator, options contracts referencing the Bank Nifty recorded a notional turnover of approximately USD 1.26 trillion set against a mere USD 3.6 billion in turnover of the underlying stocks. This 350:1 disparity between the derivative and its underlying is the structural precondition for the strategies that SEBI alleged.

B. The First Strategy: Intraday Index Manipulation

The first alleged strategy operated in two distinct phases within a single trading session.

In the first phase (broadly the morning session from 9:15 AM to approximately 11:46 AM), Jane Street allegedly executed large, aggressive purchases of Bank Nifty constituent stocks and their corresponding stock futures. These trades frequently represented more than twenty percent of the market-wide traded value in multiple scrips, including Kotak Mahindra Bank, State Bank of India and Axis Bank.[15] Orders were consistently placed above the last traded price, producing an upward artificial lift on individual stock prices and, by extension, the index itself. Concurrently, Jane Street held large bearish positions in Bank Nifty index options, structured to profit from a subsequent decline in the index.

In the second phase (the afternoon session), Jane Street reversed its cash and futures positions by selling the very stocks and futures it had acquired in the morning, causing the Bank Nifty to decline materially from its artificially elevated level.[16] The bearish options positions, which had been rendered temporarily unprofitable by the morning's artificial inflation, then recovered and yielded significant gains as the index fell toward or below the options' strike prices. Across the fifteen Bank Nifty sessions on which this pattern was identified, SEBI computed total profits in index options of INR 3,914 crore, offset by intraday losses of INR 199.7 crore in the underlying assets, producing net gains of approximately INR 3,714 crore.[17]

[14] Jane Street Order (n 8), para. 12.
[15] Jane Street Order (n 8), para. 18.
[16] Jane Street Order (n 8), para. 21.
[17] Jane Street Order (n 8), para. 34.

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C. The Second Strategy: Extended Marking the Close

The second alleged strategy was identified across six trading sessions, including 10th July 2024.[18] Unlike the intraday manipulation strategy, this approach did not involve a morning accumulation phase. Instead, Jane Street concentrated its selling activity across the final hour of trading, spreading large directional sell orders in Bank Nifty constituent stocks in a manner designed to lower the Volume-Weighted Average Price over the settlement period. By suppressing the closing level of the index, Jane Street allegedly benefited its large pre-existing bearish options positions set to expire at that session's close. On 10th July 2024, for instance, Jane Street sold approximately INR 2,800 crore worth of Bank Nifty stocks and futures near the market close, against a cash-equivalent options position of INR 44,153.87 crore.[19]

SEBI characterised both strategies as collectively constituting "sharp, large and aggressive" trades that "created a false or misleading appearance of market activity"[20] in violation of Sections 12A(a) and 12A(b) of the SEBI Act, 1992 and Regulations 3(a), 3(c), 3(d) and 4(1) of the PFUTP Regulations.[21]

D. The Prior Warning and Its Legal Significance

A legally significant feature of the Jane Street order is the uncontroverted fact that the National Stock Exchange, acting on SEBI's instructions, issued an explicit advisory to the Jane Street entities in February 2025, cautioning them against large cash-equivalent positions and questionable trading patterns.[22] Jane Street responded on 6th February 2025 and again on 21st February 2025, denying any manipulative intent. Nonetheless, SEBI found that similar conduct continued on 15th May 2025.[23]

The continuation of the impugned conduct after an explicit regulatory advisory carries' material legal consequence. It negates any argument that the manipulative effect was incidental or unintended, which, under the PFUTP Regulations, is relevant to the question of intent.[24] SEBI's order expressly described Jane Street as not being "a good faith actor," and stated that market integrity could no longer be held hostage to "the machinations of such an untrustworthy actor." In regulatory enforcement terms, the advisory constitutes evidence of constructive, if not actual,

[18] Steel Eye, *Jane Street Fine $566.3m: Market Manipulation, SEBI, July 2025* (Steel Eye, 2025). Six days of extended marking the close were identified, including 10 July 2024.
[19] *ibid*
[20] Jane Street Order (n 8), para. 47.
[21] SEBI Act, 1992, ss. 12A(a) and 12A(b).
[22] Jane Street Order (n 8), para. 51; see also National Stock Exchange of India, advisory to JSI Investments Private Limited dated 6 February 2025.
[23] Jane Street Order (n 8), para. 52.
[24] *ibid*

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knowledge of the manipulative effect of the strategy, substantially strengthening the case for disgorgement and market access restrictions under Section 11D of the SEBI Act.[25]

E. Remedial Directions and Their Conservatory Character

The order directed the joint and several impounding of INR 4,843.57 crore into a designated escrow account, being the computed aggregate of alleged unlawful gains across the 18 identified sessions.[26] Debit freezes were imposed on the bank accounts of all four entities. Jane Street complied with the escrow direction on 14th July 2025 and upon compliance the trading restrictions were lifted on 21st July 2025.[27]

It bears noting that the order is ex-parte and interim in character; it constitutes a *prima facie* finding rather than a final adjudication of guilt.[28] The escrow mechanism is conservatory, designed to secure the proceeds of alleged unlawful activity pending final proceedings, rather than punitive. Jane Street has publicly contested the characterisation of its strategies as manipulative. The legal question of whether the observed trading pattern satisfies the PFUTP Regulations' requirement of conduct designed to create a false or misleading appearance of trading will ultimately fall to be determined by SEBI's adjudicating authority and, on appeal, by the Securities Appellate Tribunal. Nonetheless, the order's detailed factual and legal reasoning represents the most authoritative statement by an Indian regulator on what algorithmic manipulation may look like in practice and its analytical framework carries significant precedential weight regardless of the final outcome.

IV. SEBI'S 2026 ALGORITHMIC TRADING FRAMEWORK: DESIGN AND CRITICAL EVALUATION

A. Objectives and Architecture

The February 2025 circular was issued in response to the rapid proliferation of unregulated retail algorithmic trading through broker APIs. Prior to the circular, retail investors could access and deploy automated trading strategies through broker-provided APIs with minimal regulatory oversight, no mandatory disclosure of algorithmic logic and no mechanism for exchange-level audit of individual automated orders. [29]

[25] SEBI Act, 1992, s. 11D (power to investigate and recover unlawful gains); s. 11B(1) (power to issue directions in the interest of investors or orderly development of the securities market).
[26] Jane Street Order
[27] Legal 500, *SEBI Update: Interim Order Against Jane Street Group for Alleged Index Manipulation* (Legal 500, July 2025). Jane Street paid the escrow amount on 14 July 2025 and resumed trading on 21 July 2025.
[28] Mondaq, *SEBI's Interim Order Against Jane Street: Allegations of Index Manipulation Explained* (Mondaq, July 2025).
[29] SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/0000013 (n 6), para. 3.

The framework rests on four architectural pillars. First, it imposes mandatory registration of all algorithmic strategies: every algorithm intended for use by retail investors must be submitted to and approved by the relevant stock exchange before deployment.[30] Second, it introduces the Algo-ID system, under which every order generated by a registered algorithm must carry a unique exchange-assigned identifier, enabling a complete audit trail from order origination to execution.[31] Third, it establishes a clear principal-agent accountability chain, designating brokers as principals responsible for the conduct of all algorithms operating through their platforms, with algo providers functioning as their regulated agents subject to exchange empanelment requirements.[32] Fourth, it distinguishes between algorithmic and ordinary API-based trading by reference to a threshold of ten orders per second, below which activity is classified as non-algorithmic and exempt from the registration requirements.[33]

The framework further requires brokers to maintain static public IP addresses for all API connections, mandates two-factor authentication and establishes kill-switch mechanisms enabling exchanges to disable specific Algo-IDs in the event of irregularities.[34] A phased implementation timeline was prescribed, with broker registration of at least one retail algorithmic strategy required by October 2025, mock trading sessions completed by January 3, 2026 and full enforcement commencing from April 1st , 2026.[35]

B. What the Framework Achieves

The framework represents a meaningful institutional advance in three respects. First, it imposes transparency obligations on a segment of the market that previously operated without any disclosure requirements, bringing retail algorithmic conduct within the ambit of regulatory oversight for the first time. The requirement that black-box algorithms be registered with a research analyst and that internal reports be made available to exchanges is a substantive governance obligation.[36]

Second, the Algo-ID system creates an audit architecture that did not previously exist. The ability to trace every automated order to its originating algorithm and its responsible broker is a precondition for meaningful market surveillance and post-trade investigation. Had this system been operational for institutional algo activity, it would potentially have enabled SEBI's

[30] *ibid*, para. 4.
[31] *ibid*, para. 5.
[32] *ibid*, para. 6.
[33] *ibid*, para. 7. The threshold of 10 orders per second distinguishes retail algorithmic activity from ordinary API-based trading.
[34] *ibid*, para. 9.
[35] Sahi, *SEBI Algo Trading Rules 2026: What Every Retail Trader Must Know Before April* (Sahi, February 2026).
[36] Trade Algos, *SEBI's 2025 Algo Trading Rules Explained for Retail Investors* (uTrade Algos, 2025).

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investigators to identify the Jane Street pattern more efficiently than through the manual analysis of years of trading logs.

Third, the allocation of principal liability to brokers, rather than to individual retail traders who may lack awareness of the risks they are assuming, is a sensible and proportionate governance choice that aligns accountability with capacity.[37]

C. The Institutional Gap: What the Framework Does Not Address

The critical limitation of the framework is one of regulatory scope. The February 2025 circular is expressly directed at the "safer participation of retail investors in algorithmic trading". Its registration and Algo-ID requirements are designed to govern algorithms deployed by retail investors through broker APIs. Jane Street however operated as a registered Foreign Portfolio Investor executing proprietary trades through its own direct market access, not as a retail client of any broker.[38] The framework is therefore structurally inapplicable to the very category of actor whose conduct the Jane Street order condemned.

This gap is not trivial. The manipulative strategies alleged in the Jane Street order involved coordinated, high-frequency activity across the cash equities segment, stock futures and index options simultaneously.[39] Such cross-segment strategies are beyond the technical reach of the Algo-ID system as presently constituted, which tags orders within broker-level systems rather than at the exchange level across all participant categories.[40] An institutional FPI executing a complex multi-legged strategy across segments is not required to register its algorithms, submit them for exchange approval or tag its orders with an Algo-ID.

The broker accountability model, which is the structural backbone of the framework, is also poorly suited to the institutional context. Brokers are designated as principals accountable for all algorithms on their platforms, yet they are not required to receive and cannot typically review the proprietary source code of sophisticated institutional strategies[41]. The asymmetry of information between an institutional algo developer and a broker-principal is, if anything, more

[37] SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/0000013 (n 6), para. 10.
[38] IJLLR, *SEBI's 2025 Framework for Safer Retail Participation in Algorithmic Trading: An Evaluation of Investor Protections, Regulatory Gaps, and International Comparisons* (March 2026). Jane Street operated as a registered Foreign Portfolio Investor, not as a retail algo provider.
[39] Jane Street Order (n 8), paras. 13-14: the alleged manipulation was executed through cross-segment activity spanning the cash equities market, stock futures and index options simultaneously.
[40] Data Intelligence, *SEBI vs Jane Street: Index Manipulation and a RegTech Wake-Up Call* (Data Intelligence, July 2025). The Algo-ID regime tags retail orders but does not extend mandatory tagging to institutional FPI order flow
[41] IRCCL, *Algorithmic Trading and Retail Investors: Rethinking SEBI's Regulatory Framework* (IRCCL, July 2025). Brokers are held accountable as principals yet lack the technical capacity to audit proprietary algorithms whose internal logic is not disclosed to them.

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pronounced than the corresponding asymmetry between retail traders and algorithm providers that the circular seeks to address.

D. The Definitional Gap: The Absence of a Statutory Definition

The Jane Street order, while analytically sophisticated, proceeds on the basis of existing statutory provisions that were drafted without algorithmic trading in contemplation. The prohibition on creating a "false or misleading appearance of trading" under the PFUTP Regulations[42] was designed for traditional forms of market manipulation such as wash trades and matched orders.[43]

The application of this provision to algorithmic strategies that produce manipulative effects as an emergent consequence of high-frequency order execution raises difficult questions of intent and causation. Whether the alleged artificial inflation of an index constitutes a "false or misleading appearance" in the statutory sense is a matter of interpretive construction rather than clear textual application.[44] The absence of a statutory definition of "algorithmic market manipulation" means that each enforcement action must construct its legal basis from general provisions, creating interpretive instability and rendering it more difficult for market participants to structure compliant strategies with confidence.

By contrast, the European Union's Markets in Financial Instruments Directive II (MiFID II) imposes specific pre-trade and post-trade controls on all firms engaged in algorithmic trading, regardless of whether they act as institutional or retail participants.[45] Commission Delegated Regulation (EU) 2017/589 (RTS 6) specifies detailed organisational requirements, including annual self-assessments of algorithm compliance, that apply at the institutional level.[46] The European Securities and Markets Authority's supervisory briefing of February 2026 further reinforces pre-trade control requirements for algorithmic trading firms, including governance arrangements, stress testing frameworks and kill-switch obligations.[47] Critically, MiFID II's algorithmic trading regime applies directly to investment firms, including foreign entities

[42] SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 Last amended on December 31, 2018

[43] PFUTP Regulations (n 9), Reg. 2(1)(c): "fraud" means any act, expression, omission or concealment committed whether in a deceitful manner or not by a person or by any other person with his connivance in order to induce another person or his agent to deal in securities."

[44] RFMLR, *SEBI's Crackdown on Algo Trading: A Step Forward or a Regulatory Puzzle?* (RFMLR, September 2025).

[45] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments (MiFID II) [2014] OJ L173/349, Art. 17.

[46] Commission Delegated Regulation (EU) 2017/589 of 19 July 2016 supplementing Directive 2014/65/EU with regard to regulatory technical standards specifying the organisational requirements of investment firms engaged in algorithmic trading [2017] OJ L87/417 (RTS 6).

[47] European Securities and Markets Authority (ESMA), *Supervisory Briefing on Algorithmic Trading in the EU*, ESMA74-1505669079-10311 (February 2026).

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accessing EU trading venues, not merely to brokers acting as intermediaries.[48]

This comparative contrast illustrates that SEBI's 2026 framework, while well-designed for its target demographic of retail investors, falls short of the comprehensive governance architecture that India's position as the world's largest derivatives market demands. The institutional dimension of algorithmic governance, which the Jane Street case has placed beyond reasonable doubt, remains substantially unaddressed.

V. CONCLUSION AND RECOMMENDATIONS

The Jane Street order of July 2025 and the SEBI algorithmic trading circular of February 2025 together constitute a watershed moment in the governance of India's derivatives market. Read individually, each represents a significant regulatory development. Read together, they reveal a governance architecture that is responsive to retail-level risks while leaving the institutional dimension of algorithmic manipulation inadequately addressed.

The order establishes, at least at the *prima facie* level of an interim direction, that high-frequency cross-segment strategies can constitute manipulative and fraudulent conduct under the PFUTP Regulations and the SEBI Act. It demonstrates that SEBI possesses both the investigative capacity and the statutory authority to act against institutional actors of significant global standing.[49] Its contribution to the jurisprudence of market manipulation lies in its detailed factual reasoning, which may inform subsequent adjudication even if the final outcome differs.

The 2026 framework achieves its stated objective of securing the retail algorithmic trading environment through registration, Algo-ID audit trails and broker accountability. Its limitations are structural rather than operational: it is designed for retail brokers and their clients, not for the Foreign Portfolio Investors and proprietary trading firms whose strategies pose a categorically different and more systemic governance risk.

Three specific reforms are warranted. First, SEBI should introduce, through an amendment to the PFUTP Regulations under Section 30 of the SEBI Act, a statutory definition of "algorithmic market manipulation" as a distinct category of prohibited conduct, encompassing strategies that employ automated order flow in one market segment to produce artificial price movements in another for the purpose of benefiting positions in a related instrument.[50] Such a definition would

[48] ESMA, *MiFID II Review Report on Algorithmic Trading*, ESMA70-156-4572 (28 September 2021), paras. 18-22.
[49] Jane Street Order (n 8), para. 52. The continuation of manipulative conduct after an explicit regulatory advisory is a materially aggravating factor in any enforcement proceeding.
[50] SEBI Act, 1992, s. 30 (power to make regulations). Any statutory definition of algorithmic market manipulation would appropriately be introduced through an amendment to the PFUTP Regulations.

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provide both regulatory certainty for compliant market participants and a clearer basis for enforcement against those who are not.

Second, SEBI should extend the Algo-ID regime to all categories of market participants, including Foreign Portfolio Investors and domestic institutional investors, through an amendment to the applicable FPI regulations. The Algo-ID system is technically and administratively feasible for institutional participants, and its extension would enable real-time surveillance of cross-segment strategies that currently escape monitoring.

Third, SEBI should prescribe mandatory risk management and governance standards for institutional algorithmic traders, drawing on the model of RTS 6 under MiFID II, requiring annual self-assessments of algorithm compliance, kill-switch obligations and direct registration of algorithmic strategies with the relevant exchange rather than through brokers as intermediaries. The structural integrity of India's derivatives market, whose scale now commands global attention, can only be secured through a governance framework that is commensurate with the sophistication of the actors who operate within it.[51]

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[51] SEBI, *Circular on Rationalisation of Weekly Index Derivatives*, Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/126 (October 2024); see also SEBI Circular dated 29 May 2025 on stronger risk disclosures and curbs on misleading ban periods in single-stock derivatives.

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