

India regulator calls for 'structural reforms' after Jane Street probe



Sebi hints at further curbs
for world's biggest futures
and options trading location

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India's capital markets regulator has called for "structural reforms" to the country's vast derivatives market, hinting that a clampdown on options trading could have further to run even after curbing retail activity and temporarily banning US trading firm Jane Street for alleged manipulation.

Tuhin Kanta Pandey, chair of the Securities and Exchange Board of India, whose action against Jane Street was its most stringent to date, told the Financial Times that the regulator was trying to curb unfair practices in the market to protect small investors as "the volumes have come down but not to the extent that is desirable".

India's options market accounted for almost 90 per cent of global trading volume last year, according to industry body the FIA, with nine out of 10 individual traders losing money, according to a Sebi report last month.

"[The] derivatives market needs some structural reforms," said Pandey — and Sebi was looking at ways to do that.

Last year, India's government and regulators became increasingly concerned as millions of largely young traders made high-risk punts on the country's booming derivatives market with cheap apps and online "finfluencers" fuelling what many saw as a legalised form of betting in a country where gambling is banned.

As the market has expanded "very much" and to maintain its integrity, Pandey said, "everyone is expecting the regulator to give a level playing field to everyone."

At the beginning of July, Sebi shocked the trading world with a 105-page order accusing Jane Street of running a "sinister scheme" to manipulate India's markets, impounding more than \$560mn of what it said were the Wall Street firm's "illegal gains".

A ban on the firm's operations was lifted after it deposited the amount in an escrow account where it will stay while the regulator completes a wider investigation into Jane Street's practices in India.

The trader made profits of more than \$4bn in the country in the past two years, according to Sebi.

In his first comments to a foreign media organisation concerning the Jane Street issue, Pandey rejected the trader's defence that Sebi had wrongly characterised its index arbitrage as manipulation.

"Manipulation is where you are artificially creating arbitrage," he said. "I know these guys are brilliant mathematicians and PhDs but we can have PhDs from our side. We are not constrained."

Pandey said he did not believe that Jane Street represented the tip of the iceberg for similar alleged manipulation by other high-frequency or algorithmic traders.

But he noted that the regulator was not "just trying to pick one" but was "looking at the trades".

While the wider investigation into Jane Street's behaviour continues, through the interim order "all we are saying is, 'you stop it'", he added.

Jane Street has said in an internal memo that it will challenge Sebi's order, calling it "extremely inflammatory".

When reached for comment on Pandey's remarks, a spokesperson said the company was "engaging constructively" with the regulator and had "sought an extension to respond to the interim order issued on July 3".

Clampdown:
the Securities
and Exchange
Board of India's
action against
Jane Street is its
most stringent
to date — Indranil
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Images

The spokesperson said the firm was "committed to conduct that upholds the integrity of India's capital markets and contributes to their continued development".

Sebi expects the number of individual investors in India's broad financial markets to reach 400mn by the end of this decade from about 130mn today — as the "newer generation is less inclined to go to the bank and [more inclined] to go to the market", Pandey said.

But Sebi, he added, was trying to "sensitise" investors "not to go into" the potentially lucrative but risky futures and options market.

Nevertheless, Pandey rejected any suggestion that Sebi was engaged in an attack on options trading.

"We've always said this derivative market is important for us, there's no way we will kill the market. You develop the market, you don't kill it."

The regulator had been studying the rapid growth in the number of individual traders betting on the derivatives market, with more than 90 per cent losing money over the past few years.

In its report this month, Sebi said the number of individual traders in Indian derivatives had more than doubled to 9.6mn in the three years to March this year — with those traders' annual losses ballooning from \$4.7bn to \$12.2bn.

As this trend developed, Sebi raised barriers to entry, among other reforms, with some success. By June this year, the number of traders had fallen by a fifth from a year earlier.

"I don't think we are comfortable with the data yet but we are putting out the data because we want people to see it," Pandey said.

Indian retail investors chalk up derivatives losses

Total losses made by individual traders in Indian equity derivatives (rupee tn)



\$1 = 87.6 rupees
Source: Securities and Exchange Board of India

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we will kill
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