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Dissecting the Jane Street SEBI Interim Order: Regulation, Reform and Market Integrity**CS RAHUL SAHASRABUDDHE,**

Designated Partner, SPRS & Co. LLP, Company Secretaries

**SHRIYA GADKARI**

Legal Intern at SPRS & Co. LLP, Student at New Law College, Mumbai

A Watershed Moment for Indian Market Regulation

The Securities and Exchange Board of India (SEBI) has taken decisive action against global proprietary trading giant Jane Street Group, issuing an interim order that froze Rs. 4,843 crore in alleged unlawful gains and barred the group from Indian securities markets. This landmark move follows a detailed investigation into sophisticated trading strategies deemed manipulative, marking a significant escalation in SEBI's enforcement capabilities and raising critical questions about market integrity around derivative expiries.

The Players and the Spark

Jane Street Group LLC, a major player in algorithmic and high-frequency trading, operates in India through four entities viz. JSI Investments Private Ltd., JSI2 Investments Private Ltd., Jane Street Singapore Pte. Ltd., and Jane Street Asia Trading Ltd. (collectively JS Group). The group first drew significant regulatory attention in India in April 2024 following media reports related to its US lawsuit against rival Millennium Management, accusing it of stealing a valuable proprietary trading strategy used in Indian markets. Jane Street accused two former star employees of stealing its secret, highly profitable trading strategy when they left for competitor Millennium Management. They claimed Millennium Management paid big bucks for this theft and is now using the stolen strategy, causing Jane Street significant financial harm. SEBI initiated a *suo motu* investigation into the JS Group's "India specific" "secret" trading strategy to assess potential market abuse.

The Scale and the Strategy: Unpacking SEBI's Findings

SEBI's exhaustive analysis, covering trading from January 1, 2023, to March 31, 2025, revealed staggering profits – the JS Group entities netted approximately Rs. 32,681 crore across National Stock Exchange (NSE) segments. Crucially, over Rs. 43,289 crore of this came solely from Index Options, dwarfing losses incurred in stock futures, index futures, and cash segments (Rs. 7,687 crore cumulatively). Within Index Options, BANKNIFTY options alone contributed a massive Rs. 17,319 crore (40% of index options profits).¹

The Legal Framework: Invoking PFUTP

SEBI based its interim action on violations of the SEBI Act, 1992, and the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (PFUTP). Key provisions cited include:

- **SEBI Act, 1992:**
 - **Sections 11(1), (4), 11B(1), 11D:** Empowering SEBI to protect investors, regulate the market, investigate, and take interim measures like impounding gains and barring market access.
 - **Section 12A(a), (b), (c):** Prohibiting manipulative/deceptive devices, schemes to defraud, and fraudulent acts in connection with listed securities.
- **PFUTP Regulations, 2003:**
 - **Regulation 3(a), (b), (c), (d):** Prohibiting fraudulent dealing, manipulative/deceptive devices, schemes to defraud, and fraudulent practices.
 - **Regulation 4(1), (2)(a), (2)(e):** Prohibiting market manipulation, specifically acts creating a false/misleading appearance of trading and acts manipulating the price of a security.

SEBI argued that the JS Group's strategies constituted:

- Creating a false/misleading appearance of trading and market activity in underlying stocks.
- Artificially influencing the prices of BANKNIFTY constituent stocks and the index itself.
- Employing a manipulative device, scheme, or artifice to defraud other market participants, particularly those trading index options who relied on the (manipulated) underlying index levels.
- Engaging in fraudulent practice by executing trades in underlying markets with no plausible standalone economic rationale (evidenced by intraday losses), solely to benefit much larger derivative positions.

Disregarding Regulatory Caution

A critical element strengthening SEBI's case was the JS Group's continuation of these practices *after* explicit regulatory warning. On February 6, 2025, acting on SEBI's advice, the National Stock Exchange (NSE) issued a caution letter to JS entities. The letter explicitly stated their trading "prima facie appears to be fraudulent and manipulative," citing concerns about large delta positions combined with concurrent trading in index constituents to influence the index price, creating information asymmetry. The NSE advised refraining from large open positions (delta) and the specific trading pattern. Despite this, SEBI observed the group running very large cash-equivalent index options positions and deploying similar strategies (e.g., a bullish variant of "Extended Marking the Close" in NIFTY on May 15, 2025) *after* receiving the caution.

SEBI's Interim Action: Swift and Severe

Invoking its powers under Sections 11 and 11B of the SEBI Act, SEBI issued an ex-parte interim order dated July 3, 2025, citing urgency to prevent "irreparable damage" to market confidence and the irrelevance of post-investigation remedies if manipulation continued. Key directives include:

1. **Impounding Gains:** Rs. 4,843.57 Crore (alleged unlawful gains) must be deposited in an escrow account with a lien in favour of SEBI.
2. **Market Ban:** All four JS Group entities are restrained from accessing the Indian securities market and prohibited from buying, selling, or dealing in securities.
3. **Asset Freeze:** Banks are directed to restrict debits from JS Group accounts (except for compliance/amounts exceeding the impounded sum). Custodians and Depositories are directed to prevent debits from JS assets and demat accounts.
4. **Asset Inventory:** JS Group must provide a full inventory of all Indian assets within 15 days.

Conclusion: Implications and the Path Forward

The SEBI interim order against Jane Street Group marks a watershed moment in Indian market regulation, showcasing SEBI's evolution into a technologically adept, data-driven watchdog. It highlights several crucial areas for reform and

focus:

1. **Expiry-Day Vulnerabilities:** The case starkly exposes the systemic risks of extreme leverage and liquidity concentration in index options on expiry days, where the underlying cash market is dwarfed, making it susceptible to manipulation by deep-pocketed players.
2. **Need for Enhanced Surveillance:** Real-time monitoring of group-level exposures (delta risk) and coordinated trading patterns across cash, futures, and options segments is paramount. SEBI's use of granular LTP analysis and delta mapping sets a new standard.
3. **Regulatory Grey Areas:** The case underscores the need for clearer legal criteria under PFUTP regulations defining "manipulation" in the context of complex, cross-market strategies that exploit index derivations.
4. **Group-Level Accountability:** Mandating consolidated reporting and viewing group entities as a single unit for exposure and activity analysis is essential, as demonstrated by SEBI's approach in this order.
5. **Enforcement Precedent:** The severity of the interim measures signals SEBI's willingness to act decisively against sophisticated market abuse, regardless of the perpetrator's global stature.

Based on the SEBI interim order, Jane Street Group (JS Group) faces several challenging paths forward, each with significant implications:

1. **Appeal to the Securities Appellate Tribunal (SAT):** The most immediate and likely step is challenging the interim order before SAT within 45 days. Their primary goal would be to get the harsh interim measures, the massive Rs. 4,843 crore asset freeze and the complete ban from the Indian market, modified or lifted entirely while the main investigation proceeds.
2. **Comply Under Protest & Engage in SEBI Process:** JS Group could choose to comply with the order's immediate demands, depositing the frozen amount into the escrow account and providing the asset inventory, while formally reserving all their legal rights.
3. **Explore Settlement (Consent Mechanism):** JS Group could explore a settlement with SEBI under its consent framework, but the regulator's discretion is absolute. In cases with significant market wide impact, SEBI may choose to proceed with full adjudication.
4. **Prepare Vigorously for the Final Investigation & Order:** Regardless of actions on the interim order, JS Group must dedicate immense resources to defending itself during SEBI's main investigation.

As the market awaits SEBI's final order, the outcome will profoundly shape the interpretation of strategic trading practices and the future landscape of market regulation in India. The Jane Street case ultimately underscores that preserving market integrity requires not just detecting fraud but proactively identifying and closing systemic loopholes that allow sophisticated strategies to operate under the guise of legality. The era of passive regulation is over; SEBI has positioned itself as a proactive, data-empowered guardian of the Indian market's fairness.

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1. The regulator identified two core manipulative patterns, primarily deployed on weekly index option expiry days where liquidity in options vastly exceeds the underlying cash markets (sometimes by over 350 times):

1. **"Intra-day Index Manipulation" Strategy (Observed on 15 days, incl. Jan 17, 2024):**

- (a) **Patch I (e.g., 9:15 AM - 11:47 AM):** JS Group became the dominant, aggressive *net buyer* in BANKNIFTY constituent stocks (cash) and their stock futures, spending thousands of crores (e.g., Rs. 4,370 Cr on Jan 17). This activity, often constituting 15-25% of the entire market's traded value in key stocks, exerted significant upward pressure on Last Traded Prices (LTP) and consequently lifted the BANKNIFTY index.

- (b) **Simultaneously in Options:** Capitalizing on the artificially supported/inflated index level (which

made Put options cheaper and Call options expensive), JS Group built massive *bearish* cash-equivalent positions in BANKNIFTY index options (e.g., net selling equivalent to Rs. 32,115 Cr on Jan 17), primarily by buying Puts and selling Calls.

(c) **Patch II (e.g., 11:49 AM - 3:30 PM):** JS Group aggressively *reversed* its underlying positions, becoming the dominant net seller of the same stocks and futures, it had bought earlier, often at prices below the last traded price, thereby forcing the market to fall. This large-scale selling, again constituting a huge market share, pushed constituent stock prices and the BANKNIFTY index down.

(d) **The Payoff:** The resultant fall in the index dramatically increased the value of the JS Group's long Put positions and decreased the liability on their short Call positions. While they incurred intraday losses (e.g., Rs. 61.6 Cr on Jan 17) in the cash/futures segments due to the aggressive reversal, profits from the exponentially larger index options positions (e.g., Rs. 735 Cr on Jan 17) far outweighed these losses. SEBI calculated a total BANKNIFTY options profit of Rs. 3,914 Cr across 15 days using this strategy, against cash/futures losses of Rs. 199.7 Cr.

2. "Extended Marking The Close" Strategy (Observed on 3 days, incl. July 10, 2024):

(a) **Build-Up:** JS Group maintained large, directional cash-equivalent positions in expiring index options (e.g., effectively short BANKNIFTY).

(b) **The Execution (Final 60-90 mins):** In a concentrated burst near the close, JS Group aggressively sold BANKNIFTY constituent stocks (cash), their stock futures, and BANKNIFTY index futures, often below the last traded price. This activity constituted a remarkably high percentage (e.g., 35-40% in futures) of the market-wide volume during this critical window when the expiry settlement price is determined.

(c) **The Payoff:** This engineered a downward push on the BANKNIFTY index at the close. The lower settlement price directly benefited their large short index options positions (e.g., profit of Rs. 560 Cr across 3 days).