



InvAsset's Voice

WHEN MARKETS MISBEHAVE: SEBI'S CRACKDOWN ON JANE STREET



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Introduction

Imagine a bustling marketplace, not of fruits or spices, but of numbers and predictions, where fortunes shift with the tick of a clock. In this world of finance, a significant event unfolded on July 3, 2025, when India's market regulator, the Securities and Exchange Board of India (SEBI), barred Jane Street Group, a major U.S. trading firm, from India's securities market. SEBI also seized ₹4,843.57 crore (about \$566.71 million) in profits, claiming Jane Street manipulated India's key stock indices, the Nifty 50 and Bank Nifty. With the curiosity of a scientist exploring the laws of nature, let us unravel this financial puzzle, examining why this happened, what it means, and how it affects India's vibrant markets.

Who is Jane Street, and What Is India's Derivatives Market?

Jane Street Group is a U.S.-based company that uses advanced mathematics and technology to trade in global financial markets. With over 2,600 employees across offices in the U.S., Europe, and Asia, it's a giant in proprietary trading, where firms bet their own money to profit from market movements. In India, Jane Street has been a key player in the derivatives market, particularly in trading options tied to stock indices.

India's derivatives market is like a grand arena where investors bet on the future prices of stocks or indices like the Nifty 50, which tracks 50 top companies, and the Bank Nifty, which follows 12 major banks. According to the Futures Industry Association, in April 2025, India handled nearly 60% of the world's equity derivative trades, driven by eager retail investors and global firms like Jane Street, Citadel Securities, and Optiver. This booming market, however, has raised concerns about fairness and stability, prompting SEBI to keep a watchful eye.

SEBI's Investigation: Uncovering the Strategies

In April 2024, SEBI began investigating Jane Street after reports surfaced about a U.S. legal dispute between Jane Street and Millennium Management over trading strategies used in India. SEBI studied Jane Street's trades from January 2023 to March 2025 and, in a detailed 105-page order issued on July 3, 2025, accused the firm of manipulating the Nifty 50 and Bank Nifty through two clever but questionable strategies.

Intra-day Index Manipulation

The first strategy was like playing a quick game of push-and-pull with the market. SEBI found that Jane Street made large trades in stocks and futures to move the Nifty 50 and Bank Nifty indices up or down during the trading day, especially on days when options contracts expired. For example, the firm would buy stocks like HDFC Bank or ICICI Bank to push the Bank Nifty index higher, then sell them to make it fall. This allowed Jane Street to profit from options bets, but SEBI said it tricked retail investors who thought the index movements reflected real market trends.

Extended Marking the Close

The second strategy involved influencing the market's closing prices. On expiry days, Jane Street allegedly made big trades in the final moments to adjust the closing values of the indices, ensuring their options bets paid off. SEBI described these trades as unusually large and without clear economic purpose, violating rules against unfair practices. It's as if Jane Street was nudging the market's final score to win its bets, disrupting the natural flow of prices.

The Financial Impact

SEBI's investigation revealed the scale of Jane Street's activities. From January 2023 to March 2025, the firm earned ₹43,289.33 crore (\$5.07 billion) from options trading. However, it lost ₹7,208 crore in stock futures, ₹191 crore in index futures, and ₹288 crore in cash trades, leaving a net profit of ₹36,671 crore (\$4.3 billion). SEBI labeled ₹4,843.57 crore of these gains as “unlawful” and ordered the amount to be locked in an escrow account, with banks instructed to freeze Jane Street's accounts until further notice. This action ensures the funds remain secure while the investigation continues, much like preserving evidence for a scientific inquiry.

SEBI's Actions and Timeline

SEBI didn't act overnight. In February 2025, the National Stock Exchange, following SEBI's guidance, warned Jane Street Singapore Pte. to stop risky trading practices. When similar patterns continued into May 2025, SEBI took stronger action. On July 3, 2025, it barred Jane Street Group and its affiliates—JSI Investments Private Ltd, JSI2 Investments Private Ltd, Jane Street Singapore Pte. Ltd, and Jane Street Asia Trading Ltd—from trading in India's securities market. The firm was given three months to close its existing derivative positions, a decision timed after the derivative cycle's expiry to avoid market chaos. This careful timing reflects SEBI's aim to maintain stability, much like balancing an equation to prevent disruption.

Jane Street's Response and Market Reaction

Jane Street denied SEBI's allegations, calling them unfounded and promising to work with the regulator to clear its name. The market felt the impact immediately: on July 4, 2025, shares of companies like BSE, Edelweiss Financial Services, and Angel One dropped by up to 6%, as investors worried about reduced trading activity. However, since Jane Street's trades were less than 1% of BSE's total volume, experts believe the long-term effect will be small.

Implications for India's Financial Markets

SEBI's action highlights the challenges of managing a fast-growing derivatives market, where retail investors and global firms create both opportunity and risk. The ban may temporarily reduce trading volume in index options, where Jane Street was a major player. Yet, with other firms like Citadel and domestic traders active, the market is expected to recover quickly. SEBI's increased focus on monitoring large trades and intraday activity suggests a future where rules are enforced with precision, ensuring the market remains a fair playing field.

This case also raises broader questions about balancing innovation with regulation. Advanced trading strategies, like those used by Jane Street, can enhance market efficiency but risk creating unfair advantages. SEBI's response shows a commitment to protecting retail investors, who, like curious students, rely on clear and honest market signals to make informed decisions.

Conclusion

SEBI's decision to bar Jane Street from India's securities market is a bold step toward ensuring fairness in one of the world's most dynamic financial systems. By seizing ₹4,843.57 crore and exposing alleged manipulative strategies, SEBI acts like a scientist correcting a flawed hypothesis, aiming to restore trust in the market. As Jane Street responds and the investigation continues, the financial world watches closely, eager to see how this shapes India's derivatives market. This moment reminds us, that “we cannot solve our problems with the same thinking we used when we created them.” SEBI's actions signal a new approach to safeguarding India's financial future, ensuring it remains a place of opportunity for all.

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