

Jane Street: SEBI waited until the billionaires got hurt

C.P. Chandrasekhar

July brought into the open one more alleged scandal in India's financial markets. While speculation around the actions that constitute the "scandal" has been rife for some time, the story went viral when India's market regulator, the Securities and Exchange Board of India ([SEBI](#)), decided to investigate and then ban a little known and oddly named foreign financial firm, Jane Street. It turns out that not only is Jane Street a major player in international financial markets but also—going by the likely conservative estimates of SEBI involved in derivatives trading in Indian markets that allegedly delivered it around \$5 billion in profits between January 2023 and March 2025. Charging the firm with manipulating the [stock](#) index derivatives market to earn profits of Rs.4,843 crore, SEBI banned it.

From the arcane reporting on and discussion of the "strategy" that Jane Street adopted, what emerges is that the firm managed to profit from operations involving simultaneous acquisition of differing quantities of options linked to market indices like [Nifty](#) and underlying stocks, which it traded in ways that yielded profits. To guarantee itself high returns, the firm is alleged to have engaged in and sequenced trades of large magnitude to move market indicators in directions that delivered enormous profits.

The gain for Jane Street, being from futures contracts, involved losses for those who were the counterparties to the options they bought (which gives the holder the right to buy or sell the instrument at a guaranteed price within a specified time frame). If the holder of either is making a gain, the counterparty must be making a loss. SEBI has known for some time now that retail traders or individuals trading in [markets](#) were the ones suffering much of the losses in the options segment. In a September 2024 study, SEBI reported that while there had been a 150 per cent increase in retail investor participation in the market for index-linked options, 9 out of 10 individual traders in the Futures and Options (F&O) segment had incurred losses in 2022-23.

However, it appears that it is not the knowledge of these losses suffered by small retail investors that moved SEBI to ban Jane Street. Despite evidence of a surge in retail investor involvement and knowledge of odd and asymmetric trends in the F&O market, SEBI had only been issuing repeated warnings to retail investors to be cautious or just stay out of these markets. But it is when other larger and more significant market players burnt their fingers and started alleging manipulation by some actor in the F&O segment that SEBI started paying serious attention. It realised that Jane Street was the primary driver of the market only when the firm filed a lawsuit in a Manhattan court against Millennium Management. Jane Street alleged that Millennium, which had poached two traders from it, was using a proprietary trading strategy they had stolen from their original employer. In the course of that trial, it was revealed more than a year back that this strategy was one that had been put to profitable use by Jane Street in Indian markets.

Taking a cue from that revelation, larger traders who had suffered losses in the F&O space alerted SEBI. That led to SEBI's investigation and conclusions. There are two sets of arguments, among others, that SEBI's charges seem to be based on. The first is the pattern and sequencing of the large trades that Jane Street had been undertaking, which pointed to the firm

influencing market movements and benefitting from them. The second is evidence that the firm had been waiting until the final strike date to close its deals to ensure that its manipulation resulted in maximum returns.

As was to be expected, Jane Street has denied the allegations, arguing that it was merely adopting hedging strategies—the very purpose for which the derivatives markets were instituted. The firm is keen on continuing with that strategy in the Indian market. This is evident from its decision to exercise the option of depositing in an escrow account a penalty of Rs.4,843 crore—payable to SEBI if the charges are established—and request that the ban be lifted even while the investigation is ongoing, so it can resume trading. It also possibly hopes to persuade SEBI in the course of the investigation that there was no manipulation involved and that it was pursuing a legitimate trading strategy.

For all its public display of anger, SEBI and Jane Street seem to be on the same page. The market regulator has said it does not want to ban index futures and will only seek to regulate them better to prevent disruption by rogue players. What this implies is that SEBI's problem with Jane Street is that it was “rogue” and not just exploiting opportunities for profit that a liberalised market offers. This also suggests that cosmetic regulation of trading volumes or exposures, as opposed to doing away with the instruments concerned and keeping out players with deep pockets who could move markets, is all that SEBI wants to resort to.

This ignores the larger issue of why, if at all, such instruments are needed. They do not contribute to mobilising funds for actual physical investments, nor do they help smaller players use them to hedge against risk. Rather they attract retail and small investors looking to supplement their regular earnings with incomes from financial investments, who end up burning their fingers as a result of market movements beyond their control. It is the usefulness of these markets and instruments that are in question. If their role is to support speculation and little else, we may be better off doing away with them.

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