



When Algorithmic Trading Meets Allegations of Market Manipulation

The Jane Street – SEBI Case

On July 3, 2025, India's Securities and Exchange Board (SEBI) accused Jane Street, a U.S.-based proprietary trading firm, of manipulating Indian markets to generate unlawful gains. SEBI imposed a trading ban and froze INR 4,843 crore (~\$565 million) of Jane Street's assets, sparking global debate over the line between legitimate high-frequency trading and market abuse.

This case highlights the challenges of regulating modern algorithmic strategies in interconnected derivatives markets. Below, we explore the core allegations, the mechanics of Jane Street's trading strategies, their defense, and what this means for market participants.



The Market Context: A Unique Playground for Complex Strategies

SEBI's investigation into Jane Street was triggered by a 2024 U.S. trade-secrets lawsuit referencing options trading in India.

India's derivatives markets are a global anomaly, accounting for 61% of worldwide equity options contracts by April 2025. The Bank Nifty index, a focal point of SEBI's investigation, exemplifies this scale. On January 17, 2024—one of the days scrutinized by SEBI—Bank Nifty options recorded \$1.26 trillion notional value in turnover, dwarfing the \$3.6 billion in underlying stock trades, a 350:1 disparity. This index, heavily concentrated with five stocks making up ~82% of its weight, is particularly sensitive to targeted trading.

Such disparity creates fertile ground for trading strategies that leverage options market depth against a relatively shallow cash market. SEBI's investigation focused on a sample of 18 trading days around weekly options expiry periods, a time when index prices are particularly sensitive to trading patterns.



The Core Allegations: Intraday Price Movements and Settlement Price Influence

SEBI's 105-page interim order identifies two principal trading patterns that it considers manipulative:

Intraday Index Manipulation

Jane Street executed large purchases of Bank Nifty constituent stocks and futures in the morning, sometimes accounting for 15-25% of total market volume in select stocks. SEBI alleges this buying pressure raised the index price by approximately 1% to 1.3% artificially.¹ Simultaneously, Jane Street took large short positions in Bank Nifty options, mainly through selling call options and buying put options. These short-term, mostly at-the-money options closely replicated index positions.

In a typical index arbitrage strategy, traders balance their positions to have a near-zero net delta², aiming to be neutral to market direction and profiting from small price discrepancies rather than market moves. On an examined day, SEBI found Jane Street's option positions were about 7.3 times larger in delta-equivalent terms than their stock and futures positions, an imbalance unusual for index arbitrage. Later in that trading day, Jane Street reversed its cash market positions, aggressively selling stocks and futures and driving the index price down. This pattern ensured the call options they sold would expire worthless while put options they purchased would result in significant gains. Jane Street reportedly took losses of about \$7.5 million in cash and futures on that day while they earned roughly \$89 million in options profits.

This patterned trade sizing and sequencing in cash and futures markets—morning buying followed by later selling, allegedly intended to influence prices to drive gains in options positions—is a central element of SEBI's claim of manipulation.

Extended Marking the Close

The second alleged misconduct involves influencing the critical settlement price calculation used for option expiry. SEBI describes "extended marking the close"³ as spreading selling activity across the last hour of trading. By doing so, Jane Street allegedly managed to lower the Volume-Weighted-Average-Price (VWAP) over the settlement period, benefiting their substantial short options positions. Unlike a simple last traded price, VWAP is more robust but still vulnerable to sustained, directional trading with enough capital.

SEBI calculates that these strategies alone generated net profits of INR 4,843 crore (~\$565 million) during the examined days, representing a substantial share of its estimate of roughly INR 32,681 crore (~\$4 billion) Jane Street earned in India. SEBI further alleges that Jane Street operated through multiple entities to amplify market impact, potentially breaching applicable regulations.





Navigating the Fine Line: Lessons

Whether Jane Street's trades ultimately prove manipulative or legitimate will likely depend on evidence of intent and economic impact. The case highlights the difficulty of distinguishing aggressive arbitrage from coordinated manipulation when sophisticated algorithms and large capital meet vulnerable market structures.

We anticipate heightened global regulatory scrutiny on algorithmic and high-frequency trading following this incident. For participants in derivatives markets, proactively engaging expert forensic analysts and regulatory counsel will become increasingly essential. Market-makers will need quantifiable evidence of limited risk exposures without intent to influence

prices. Regulators must adopt improved forensic tools to detect potentially manipulative activities earlier. An intelligent redesign of regulatory thresholds could ultimately benefit both market-makers and investors.

Evidence-based analysis of trading mechanics, market impact, and regulatory compliance is a core expertise of FTI Consulting. Our team regularly assists clients with due diligence reviews, misconduct investigations and regulatory compliance assessments. By translating complex trading data into coherent, defensible narratives, we help clients demonstrate and improve compliance. Using methods like order-book analysis and pattern detection, we equip clients to navigate the complexities of modern trading practices.

If you would like to discuss how FTI Consulting can help your firm prepare for or respond to complex trading investigations, please contact us at SCD@fticonsulting.com.

Reference: SEBI Enforcement Order HYPERLINK "https://www.sebi.gov.in/enforcement/orders/jul-2025/interim-order-in-the-matter-of-index-manipulation-by-jane-street-group_95040.html" "Interim Order in the matter of Index manipulation by Jane Street Group", July 3 2025

- 1 To illustrate feasibility, a stylized Almgren-Chriss impact for executing 25 % of average daily volume ($\sigma = 1.4\%$, $\lambda = 0.3 \text{ bp } \sqrt{\text{share}}$) suggests a temporary $\pm 1.1\%$ index move—in line with the 1-1.3 % distortion cited by the regulator.
- 2 Delta measures how much an option's price changes for a one-unit change in the underlying asset's. A delta-neutral strategy balances positions to minimize directional risk from small price movements.
- 3 Marking the close refers to trading, typically near market close, to influence a security's or index's closing price.

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