

Why SEBI is planning to Regulate Algorithmic Trading in the country? Discuss

SEBI has announced recently to regulate Algorithmic trading in the country, keeping interest of Retail investors in view and avoid Manipulation. With heavy increase of Retail investors in lockdown and advent of new Applications and Platforms like Angel Broking App, Upstock, Grow, the task of SEBI has increased tremendously.

Algorithmic Trading is defined as a pre-condition or set of pre-conditions which leads to Buy or Sell of Stocks. Introduced in 2008, it was used minutely by savvy traders, but with advent of Apps and rising technology its use has manifested. Its use has increased due to its pre defined, advance algo mechanism having high speed of execution.

Previously, as there were no rules for Algo programmes by deployed by traders, SEBI used to regulate & Monitor Brokers terminals. But, now as many cases are reported by SEBI, of fraud and false promises by brokers. It has also a chance of getting Manipulated, misuse and lure retail investors. It got controversial in 2015, when news of preferential access to certain traders came. Data leak and vulnerabilities in CDSL has also raised the eyebrows. Keeping this in mind, currently, SEBI has proposed to approve every algo programmes by the Exchange before deployment. Transparency and accountability is increased by defining Nature of Third party Algo provider, and generating unique Id for each Algo. Also they asked Brokers to check there is no unauthorized tweaking of Algos. However, there is a fear among broker's that they can loose a chunk of revenue as a multiple approval will add complexity, though it's necessary for security of retail investors.

More regulation to remove malicious agents which can hamper the Stock Market is a good step by SEBI. Use of various tools can be used and developed to track, and identify any possible fraud, as Stock Market is based on sentiments.