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# Sebi seeks review of algo trading guidelines

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Less than three months after it released a discussion paper outlining the guidelines for high-frequency trading (HFT), the market regulator has commissioned a third-party study of the proposed regulations, two people aware of the development said.

In HFT, also called algorithmic trading, electronic systems can potentially execute thousands of orders in less than a second, much faster than conventional trading.

There have been concerns that algo traders who locate their servers on exchange premises—called co-location—get an unfair advantage over others who don't have such access.

“We have commissioned a third-party study of the seven proposed methods to curtail the problem of unequal access while using co-location and algorithmic trading platform. The study, being headed by an Indian Institute of Technology (IIT) professor, is likely to be submitted by the end of this month,” said an official at the Securities and Exchange Board of India (Sebi), one of the two people mentioned above, on condition of anonymity.

The terms of reference of the study include data mining, comparison with global best practices, cost-benefit analysis and whether the proposed seven methods will be able to ensure equitable access without impacting liquidity, the two people added.

An email sent to Sebi on Tuesday seeking comment went unanswered.

The 5 August discussion paper had proposed seven ways to level the playing field between HFT traders and others.

These included revising the order sequence, introducing a minimum resting time between HFT orders, and uniform access to market data.

The proposals were criticized by market participants, who said there was no research to support them. Some claimed the measures would be

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counterproductive and squeeze liquidity.

All financial services regulators including Sebi, which have adopted the non-legislative recommendations of the Financial Sector Legislative Reforms Commission, are expected to undertake a cost-benefit analysis before proposing any regulations.

“All draft subordinate legislation should be published with statement of objectives, the problem it seeks to solve, and a cost-benefit analysis (using best practices),” says the Indian Financial Code.

Foreign institutional investors, (FIIs) through Asia Securities Industry and Financial Markets Association (ASIFMA), and local brokerages had written to Sebi that the proposals lacked a cost-benefit analysis and data research.

“FIIs could migrate to other jurisdictions to seek exposure to Indian firms as the norms were too onerous with little-to-nil global precedence. There is lack of research to suggest the advantage of the proposed steps,” an official at AFISMA said, requesting anonymity.

Based on the outcome of the study, Sebi may need to reissue a fresh discussion paper, said the second person cited earlier in the story.

“Considering that a cost-benefit analysis needs to be a part of the draft regulations, a fresh discussion paper could be in the offing, which would be backed by sound research,” this person said, also on condition of anonymity.

Since releasing the discussion paper, Sebi has received wide-ranging suggestions.

The regulator is also discussing them with the government and the Reserve Bank of India, following which a final view will be taken.

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