SEBI's Norm on Algo trading

Why in news?

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SEBI has announced new norms on algorithmic (or) Algo trading.

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What is Algo trading?

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- Algorithmic trades are orders executed on the stock exchange platform by computers through a programme designed by the user.
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- Algo trades can involve different degrees of manual intervention ranging from zero-touch algorithms which does not require much manual intervention.
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- It was introduced in 2009 in India and there has been rising interest from large domestic and foreign institutional investors.
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- Algo trade in India accounts for about 35-40 percent of turnover of exchanges.
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- Algo trades help institutional investors increase the efficiency of trade execution and spot fleeting trading opportunities.
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- It will also increase liquidity to the market as there are more transactions and investments which gain using this method.
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What are the concerns with Algo trading?

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- Algo trades have often been blamed for magnifying trends and induce flash crashes in the market.
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- A bug in the programme or error by traders can cause the stock prices to fluctuate wildly and may even collapse the entire market.
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What is SEBI's recent announcement in this regard?

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- SEBI approves the Algo programmes before they are put into use in any of the Indian exchanges.
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- By which stock exchanges have to allot a unique identifier to each approved algorithm and ensure that each order is tagged with it.
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- Recently to check price swings SEBI has announced penalties that would be levied on Algo orders placed more than 0.75 per cent away from the last traded price.
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- It has also proposed a stricter monitoring of these trades to ensure the smooth functioning of the market.
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Source: Business Line

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