

ALGO TRADING

Don't ignore ethical element: FinMin

'Policymakers, regulators, market managers must ensure that manipulation is dealt with'

ENS ECONOMIC BUREAU
NEW DELHI, AUGUST 28

ACKNOWLEDGING THE stated objective of market participants to maximise returns through algorithmic trading, finance ministry officials said that the importance of 'ethical element' should not be ignored.

Ethical issues are important when dealing with market manipulations or disruptions and policymakers, regulators and managers of the markets need to ensure that such cases are dealt with appropriately, finance secretary Ashok Lavasa said.

"Ethical issues are important when we are dealing with a subject like this and we have all known of cases where markets have been manipulated and whether by default or by design there are tendencies to cause huge losses or disruptions ... as we go along, the policymakers, regulators, and the managers of the market, they will have to ensure that this kind of distortion, this kind of manipulation in the market is dealt with appropriately," Lavasa said at a seminar on algorithm and high frequency

'PROFITS VIA BETTER ALGORITHM NOT WRONG'

■ "The market participants have one basic objective of using algorithms for market trading. Their basic objective is to maximise returns... there's nothing wrong about it. Better ability to write algorithms can generate more revenue..." economic affairs secretary Subhash Chandra Garg said

■ The government is working towards ensuring proper safeguards for cybersecurity such as FinCert as the country moves towards an increased usage of technology systems such as the one used in Goods and Services Tax (GST) in the form of GSTN (GST Network)

trading organised by Department of Economic Affairs (DEA) and National Institute for Financial Management (NIFM).

Algorithmic trading or algo trading refers to orders on bourses that are generated using high-frequency, automated execution logic.

The finance secretary also drew an analogy for cybersecurity with the national grid in the power sector, saying that as the national grid gained importance for transmitting power from one place to another instead of regional grids, power engineers in-

troduced more and more safeguards to protect the national grid. Similarly, the government is working towards ensuring proper safeguards for cybersecurity such as FinCert as the country moves towards an increased usage of technology systems such as the one used in Goods and Services Tax (GST) in the form of GSTN (GST Network).

"As more and more technology comes in, the issue of cybersecurity is important and you also have GST, which is all predicated upon the working of the information technology network

of GSTN and cybersecurity in these days and times has assumed a very important dimension. The government itself is very keen that as we increase the usage of these systems, we also have proper safeguards, proper response mechanisms, proper corrective mechanisms in place so that our systems' vulnerabilities get reduced and if at all, there is an attempt, then we can quickly remedy the situation," Lavasa said.

The DEA is working on setting up a FinCert which is a coordinated mechanism where the financial systems vulnerabilities as far as cyber crime is concerned is appropriately dealt with, he added.

Economic affairs secretary Subhash Chandra Garg echoed the same view pertaining to generation of higher profits, but in a fair manner. "The market participants have one basic objective of using algorithms for market trading. Their basic objective is to maximise returns or their wealth ... there's nothing wrong about it. From the policy perspective, there is nothing wrong with it. That's what it is supposed to be and therefore, the

policymakers, the regulators need to protect and facilitate this particular objective. Better ability to write algorithms can generate more revenue, that is what the policymakers won't come in the way. The same ability to create algorithms can be used to do disruption in the market, to create inequities, to create non-competitive behaviour, or worst, even create such risks that the market itself collapses which we have seen in some instances all over the world," Garg said.

He said that policymakers and the regulators need to have the ability to control and regulate the algorithm institutional players from using unfair means to generate profits. "This aspect of algorithm trading that you can risk the market or you can create a non-competitive environment around it or you can use means which can provide you an unfair advantage over others. This is the aspect which cannot, to my mind, from a policy aspect or a regulatory perspective, be allowed. The policymakers and the regulators need to have the ability to control and regulate this type of aspect in the algorithm institutional players," he said.