# SEBI considers short selling ban, trading curbs to reduce market volatility

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Last week, the finance ministry hauled up the market regulator, seeking immediate action to curb the free fall in the market, sources said.

The Securities and Exchange Board of India (SEBI) is working on a plan to arrest the deep market sell-off and reduce volatility, which has spiked to record levels owing to the damage caused by the coronavirus pandemic. A ban on short selling, mandatory delivery-based trading, and invoking the so-called additional surveillance mechanism (ASM) for highly volatile stocks are among the proposals being considered, said people in the know.

If the market continues to fall, SEBI would announce at least some of these measures to reduce excessive speculation and prevent traders from exacerbating the fall, they added.

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On Friday, the Nifty50 index plunged 10 per cent, triggering a halt in trading for the first time since the 2008 global financial crisis. However, after trading resumed, the index saw a dramatic 16 per cent rebound. The recovery happened on the back of measures announced by central banks and authorities around the world to stop the market slide.
If India introduces steps such as a short selling ban, it will join other countries, including South Korea, Spain, and Italy, which have announced measures to bring stability to the markets, which have undergone their worst rout since 2008 on fears that the spread of coronavirus would push the global economy into a recession.

Short selling is a trading strategy that bets on a decline in the share price. Either traders borrow shares for shorting or use the derivatives market, which allows shorting without having the underlying security.
"As other countries have announced measures to stem the market fall, there is pressure on SEBI to follow suit. Based on the structure of the domestic market, SEBI could use the tools at its disposal to ensure there is no panic among investors," said an exchange official.

However, some say such measures could do more harm than good to the market. "A ban on short selling should be used only in extreme situations. It often distorts the process of fair price discovery. Also, it provide only short-term relief and cannot alter the direction of the market," said an industry expert. Instead of a blanket ban on short selling, SEBI might ban naked shorting in the derivatives segment, said experts. This means it will allow investors to go short only to hedge their cash positions. A similar move is in place for overseas investors taking the participatory notes route. A ban on intra-day trading and extending the scope of the ASM, which is currently used only on small-cap stocks, are other tools that can be used by the regulator, said people in the know. Also, SEBI has asked the stock exchanges to increase monitoring of algorithmic trading (algo) and high-frequency trades (HFT), whose influence in the domestic market has increased exponentially. Many believe the 10 per cent drop in the market on Friday was caused by algo and HFT as stock prices fell on very low volumes. The finance ministry has directed SEBI to report regularly all the developments taking place in the financial markets and measures taken to control market volatility. An email sent to SEBI on the issue went unanswered.