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## Taxing Lessons from the Jane Street Saga



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**Backdrop:** It started like any other trading day on the Dalal Street-screens blinking, traders glued to charts, the Bank Nifty index showing signs of strength. Nothing seemed out of the ordinary. But behind the scenes, far away from the chaos of Indian brokerage terminals, a silent playbook was being executed by one of the world's most sophisticated trading firms - Jane Street -a USA based quant proprietary trading giant. Using speed, access, and a cleverly orchestrated strategy, they turned the Indian stock market into their own version of an IPL match-where the outcome wasn't left to chance but choreographed, orchestrated and steered to a fixed outcome. And just like a rigged cricket game, it wasn't the players or fans who won-it was the ones pulling the strings.

It was a game where the scoreboard was real, but the momentum was manufactured-and to understand how Jane Street pulled it off, let's break it down through a familiar lens: an IPL match where the odds were fixed, long before the toss.

### How Jane Street Played a Rigged Cricket Match on Dalal Street: An Analogy of Deception

Cricket has always been a game full of twists-unpredictable, thrilling, and often decided in the final moments. But every now and then, those twists aren't organic. They're designed. This is the story of how Jane Street, one of the world's most powerful algorithmic trading firms, allegedly played the Indian derivatives market like a fixed IPL match-where the crowd cheered a rally, not knowing it was just the opening act of a well-rehearsed script.

**Picture this: an IPL finale match between Team A - Indian Cash Segment 11 v. Team B – Jane Derivatives Segment 11.** Let's walk through how it all played out, step-by-step, where the outcome seemed uncertain, but may have been anything but.

### The Powerplay Blitz – Team A - Indian Cash Segment 11, Starts on Fire

The match begins with Team A's top-order smashing boundaries in the powerplay. The scoreboard races ahead. Commentators call it a 200 plus gigantic total. Fans rejoice. The win predictor shows 80% in Team A's favour.

On Dalal Street: In the morning hours of Option Expiry Thursday, Jane Street, via two Indian-linked entities, begins aggressively buying Bank Nifty stocks-HDFC Bank, ICICI Bank, SBI, and others. The Bank Nifty index surges. Retail traders and institutions see this as a momentum signal and jump in. It looks like a genuine rally.

But this was never about holding those stocks. It was a bait.

### The Hidden Bet – Coach Wagers on the Opposition

Unknown to fans, Team A's coach has quietly placed a massive wager on Team B to win. The blazing start? Just theatre to get better odds on the underdog.

In the market: Jane Street had already taken large Put Option positions-bets that profit when the Bank Nifty falls. By pushing the index up first, they made these puts cheaper. With the rally in place, they loaded up on Puts at bargain premiums. It was a rigged setup to profit from the fall that was yet to come.

### **Strategic Timeout – The Calm Before the Collapse**

Mid-innings, the match feels balanced. Team A slows down. Some strange field placements emerge. Subtle signals hint something's off, but fans dismiss it as nerves.

Meanwhile, in the market: Jane Street stops buying. The artificial demand dries up. With large Put Option positions already secured and retail investors now heavily bullish, the firm prepares for its next move. There's no major news, no reason for volatility. But under the surface, the storm is about to hit.

### **The Collapse – Wickets Fall Like Dominoes**

Suddenly, Team A starts losing wickets in clusters. Mistimed shots, soft dismissals. Within a few overs, they're reeling. They finish scoring just 104 runs. The crowd is stunned. The win predictor flips: now 80% in favour of Team B.

On Dalal Street: Jane Street unleashes its final act-it dumps all those Bank Nifty stocks it bought in the morning. The index tanks within hours. Panic sets in. Retail traders, caught off guard, hit stop-losses. Institutions scramble. The market reverses violently.

### **The Finish – Team B (Derivative Segments 11) Wins, the Coach Laughs Last**

Team B now chases down the modest target of 104 with ease. The match is over. The coach who bets on them walks away with huge winnings. The fix worked flawlessly.

In the financial markets: As the Bank Nifty falls sharply, the Put Options skyrocket. Jane Street books thousands-of crores in profits. Whatever they lost in the cash segment was easily covered, and then some, by their gains in the options market. For every rupee they gained, someone else lost. That's the nature of the zero-sum derivatives game.

### **The Spectators Feel Cheated – Post-Match Scrutiny Begins**

After the match, murmurs of foul play grow louder. Why did Team A collapse so suddenly? Was it bad cricket-or something else? An inquiry is hinted at. But the result can't be undone. The crowd leaves disillusioned.

In the markets: SEBI and the RBI begin investigating. RBI issues an interim order, barring such structures-foreign entities using Indian firms to manipulate prices in the cash market, thereby influencing the derivatives market, a route FPIs aren't permitted to take. But by then, the trades are closed. The profits are booked. The exit doors used. Trust has already taken the hit.

SEBI's interim order alleges this strategy was used across 18 Bank Nifty and 3 Nifty expiry days, resulting in profits of over Rs. 43,289 crore, of which Rs. 36,500 crore was linked directly to expiry-day trades. SEBI found this too calculated to be coincidental, and froze Rs. 4,844 crore, ordering it into an Indian escrow account. All Jane Street entities were also barred from trading in Indian markets until further notice.

### **IPL vs Market: The One-on-One Comparison**

<b>IPL Match Scenario</b>	<b>Market Manipulation Equivalent</b>
Team A dominates early with aggressive batting	Jane Street buys Bank Nifty stocks aggressively
Coach places a secret bet on Team B	Jane Street buys Put Options beforehand
Strategic timeout slows momentum	Jane Street stops buying; market cools quietly

Team A collapses after timeout	Jane Street dumps stocks; index crashes
Team B wins, coach profits from the fix	Put Options surge; Jane Street books profits
Fans question sudden collapse of Team A post-match	SEBI/RBI step in after the damage is done

### Taxing Woes of Indian Retail Investor

Jane Street's sophisticated algorithms ran silent but deep, making split-second trades that moved markets and mined profits. But for lakhs of Indian retail traders who logged into their broker apps every Thursday expiry hoping to make small gains from Nifty and Bank Nifty options, the experience was nothing short of a recurring nightmare.

SEBI's own data revealed that nearly 93% of retail option traders lost money on these manipulated expiry days. For lakhs of traders betting on direction, relying on patterns, or hoping for expiry rallies, the market seemed to turn against them like clockwork. What they didn't know was that a global quant giant with lightning-fast trades, deep pockets, and strategic positioning was possibly tipping the scales behind the scenes.

This wasn't just market-making. It bordered on market choreography.

And in the high-stakes arena of derivatives, this was a **zero-sum game, but a rigged one**. Every rupee earned by Jane Street in these options trades meant an equal rupee lost - often by India's small investors, pensioners, and first-time F&O enthusiasts seduced by the lure of weekly profits.

But the tragedy didn't end with financial loss. For millions of Indian retail investors, the nightmare extended into another realm altogether: tax notices.

Despite losing lakhs - sometimes their entire capital - in the complex world of Futures & Options (F&O) trading, these investors were served income tax scrutiny notices. Why? Because their trading losses, though real, weren't properly reported or reflected in their Income Tax Returns (ITRs). Often due to lack of professional advice, awareness, or confusion around the ITR forms and audit rules, these losses were either unclaimed or incorrectly filed—triggering algorithmic red flags at the Centralized Processing Centre (CPC).

**Imagine the irony:** a Farmer from Karnataka who lost Rs. 25 lakhs on F&O trades is now grappling with a Section 148A income tax reassessment notice. Meanwhile, Jane Street Singapore Pte Ltd, which allegedly pocketed over Rs. 4,800 crore in options profits, reportedly paid zero Indian income tax, cleverly routing trades through Double Taxation Avoidance Agreement (DTAA) loopholes.

These entities exploited the fact that under India's tax treaties - particularly with Singapore and Mauritius - capital gains may not be taxable in India if the entity does not have a Permanent Establishment (PE) here. Using this structure, Jane Street's offshore entities booked astronomical profits while sidestepping local tax liabilities. It's a case of regulatory arbitrage at its sharpest.

### Text Book Case of Treaty Shopping:

Jane Street Singapore Pte Ltd, the main offshore beneficiary of the Jane Street group, which reportedly made over Rs. 4,800 crore in options gains, paid zero tax in India—thanks to DTAA (Double Tax Avoidance Agreement) benefits.

Jane Street allegedly structured its trades via jurisdictions like Singapore and Mauritius, where India's tax treaties allow capital gains to escape Indian tax, provided the entity has no Permanent Establishment (PE) in India. This is a textbook case of treaty shopping and tax arbitrage, where global giants use legal structures to bypass what domestic traders cannot.

### Lessons from Jane Street—for Dalal Street & the Indian Tax System

The Jane Street saga isn't just a market story—it's a wake-up call packed with hard lessons for both Dalal Street regulators and India's tax authorities on how global players can exploit structural loopholes faster than the system can respond.

## **For SEBI and the Exchanges**

- Tighter expiry-day surveillance
- Mandatory reporting of large intraday cash positions
- Forensic tracking of cash-derivatives linkages
- Guardrails to protect retail investors from manipulative flows

## **For CBDT and the Tax Authorities**

- Plug DTAA misuse via GAAR provisions
- Apply withholding tax on offshore derivatives gains
- Create smarter ITR tools for Indian traders to report F&O losses accurately

## **For Indian Retail Traders**

- Know the rules-both trading and tax
- Don't rely on hope-use risk-managed strategies
- And above all: get tax advice. The markets won't protect you, but your paperwork might.

## **The Final Word**

A global quant firm, executing trades in milliseconds, used speed, access, and structured loopholes of the shallowness of the Indian capital market, to extract billions from an unprotected ecosystem. Meanwhile, the Indian retail investor, emotionally and financially battered, faced both market losses and regulatory tax burdens - without ever truly understanding the forces against them.

If Dalal Street is to remain the people's market, and not the algorithm's playground, and if India's tax system is to uphold equity, not just legality, then the lessons from this saga must echo far beyond the trading floor.

Because in this story, the biggest manipulation wasn't just of stock prices - but of trust. And trust, in a market economy, is everything.

For Indian investors, the key lesson is awareness - know the rules, risks, and tax responsibilities. In a game that's not always fair, abstinence often remains the strongest form of protection.

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