What is Front Running?

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Front Running

The board of Securities and Exchange Board of India (Sebi) approved changes in mutual fund regulations to prevent **front-running** in **Asset Management Companies (AMCs).**

[Ref: ET]

About Front Running:

- **Front running** is when a broker or trader uses advanced, non-public information about client orders to execute their own trades first.
- It is **illegal in India** and considered unethical as it disrupts market fairness.
- This practice aims to profit from the anticipated price movement caused by large client orders that have yet to be executed.
- It damages confidence in the financial markets and creates an uneven playing field.

Buy-Buy-Sell (BBS) Trading Pattern:

- The BBS pattern involves a trader acting on **non-public information** about an upcoming large buy order.
- The front-runner places their own buy order before the large client's order.
- When a large client's buy order is placed, it raises the **security's price**.
- The front-runner then sells their holdings at this **increased price, securing a profit.**

Sell-Sell-Buy (SSB) Trading Pattern:

- In the SSB pattern, the trader uses **non-public information** about an impending large sell order.
- The front-runner places sell orders before the big **client's sell order is executed**.
- This anticipates a drop in the security's price, allowing the **front-runner** to rebuy the same security at a lower price later.
- The goal is to profit from the price differential created by the **anticipated market reaction** to the big client's sell orders.

