Wash Trade

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What does the term 'wash trade' refer to in finance?

- It is also called as Self-trade
- This refers to a form of market manipulation wherein a trader simultaneously buys and sells a stock, or any other financial security, in the market.
- First, an investor will place a sell order, then place a buy order to buy from himself, or vice versa.
- If instead of an individual, a group undertakes such activities, it is called circular trading
- A wash trading scheme helps to create the impression that security is ***being actively traded*** in the market and is thus in strong demand among market participants in general.
- This, in turn, can mislead other investors into buying security and boosting its price.
- Brokers might also cooperate with traders engaging in wash trades simply because they can earn huge commissions in the process.
- Tax considerations at the end of a financial year may also push many regular investors to engage in wash trades

What is SEBI's stand on this?

- SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003 (the "PFUTP Regulations"). Intentions of such activities are scrutinized by a quasi-judicial body.
- If the intention is the manipulation of the prices of particular stock then, such investors will be charged with the violation of PFUTP Regulations. If not or if it is an accidental/unintentional then, no action will be taken.