

What is Front-running?

May 1, 2024 • vajiramandravi.com



About Front-running:

- Front-running is when a broker or an **investor joins a trade** because they have **pre-existing non-public information concerning a significant transaction that may change the asset's price**, equity, or derivative to obtain economic benefits.
- It is also known as **forward-trading or tailgating**.
- It is **illegal in India**.
- Front-running can **occur in various forms and contexts**, including the stock market, commodities market, and other financial markets.
- The **strategies commonly used** to front-run trades are the **Buy-Buy-Sell (BBS) trading** pattern and the **Sell-Sell-Buy (SSB) trading** pattern.
- **What is Buy-Buy-Sell (BBS) trading pattern?**
 - In this trade pattern, the alleged front-runner, by **using the non-public information** regarding an impending buy order of the big client, **places his buy order before the big client's buy order**.
 - As and **when the big client places a buy order, the price of the security rises**, and the alleged front-runner sells the securities bought earlier.
 - In this way, at the raised price, the alleged front-runner makes a profit.
- **What is the Sell-Sell-Buy (SSB) trading pattern?**
 - In this trading pattern, the alleged front-runner by using the non-public information regarding an impending sell order of the big client, **places his sell orders before the big client's sell order**.

- When the **big client places a sell order the price of the security falls** which allows the alleged front-runner to **buy back the securities at a lower price** to meet his obligations which he had created earlier by selling securities.

Difference Between Front Running and Insider Trading:

- **Insider trading** involves trading securities **based on material, non-public information about a company. Insiders**, such as company executives, employees, or individuals **with access to confidential information**, use this privileged information to make trades for personal gain.
 - On the other hand, **Front Running involves trading securities based on knowledge of pending orders** or anticipated market movements. It typically occurs when a broker or trader exploits their position or advanced expertise to prioritize their trades over their clients or the general public.
-

Q1: What are asset management companies (AMCs)?

Asset management company is a firm that invests the funds pooled from individual investors in securities with the objective of optimal return for investors in exchange for a fee.

AMC maintains the diversity of portfolio by investing in both high-risk and low-risk securities such as stock, debt, real- estate, shares, bonds, pension funds, etc.

Because they have a larger pool of resources than the individual investor could access on their own, AMCs provide investors with more diversification and investing options. AMCs are colloquially referred to as money managers or money management firms.

Source: [SEBI tweaks mutual fund regulations to stop front running in asset management companies](#)

Source: <https://vajiramandravi.com/current-affairs/front-running-in-trading/>

© Vajiram & Ravi. For personal use only.