

Chapter 7A

Algorithmic trading

		<div>7A.1</div> <div>Application</div>
7A.1.1	<div>R</div>	<div>Who?</div> <div>This chapter applies to :</div> <div><div>(1) a <i>UK MiFID investment firm</i>; and</div><div>(2) a <i>third country investment firm</i>, with an establishment in the <i>United Kingdom</i>.</div></div>
7A.1.2	<div>R</div>	<div>What?</div> <div>This chapter applies to a <i>firm</i> in relation to the following activities:</div> <div><div>(1) <i>algorithmic trading</i> (■ MAR 7A.3);</div><div>(2) providing the service of <i>DEA</i> to a <i>trading venue</i> (■ MAR 7A.4); and</div><div>(3) providing the service of acting as a general clearing member for another <i>person</i> (■ MAR 7A.5).</div></div> <div>[Note: this chapter transposes article 17 of <i>MiFID</i>, in respect of the types of <i>firms</i> referred to above. Parts 4 of the <i>MiFI Regulations</i> sets out equivalent requirements in respect of <i>persons</i> exempt under article 2(1)(a), (e), (i) and (j) of <i>MiFID</i>, which are required to comply with article 17(1) to (6) of <i>MiFID</i> due to article 1(5) of <i>MiFID</i>.]</div>
7A.1.3	<div>G</div>	<div>Status of EU provisions as rules in certain instances</div> <div>■ GEN 2.2.22AR applies to ensure that a <i>third country investment firm</i> should not be treated in a more favourable way than an <i>EEA firm</i>.</div>

7A.2 Purpose

7A.2.1

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The purpose of this chapter is to implement article 17 of *MiFID*, which imposes requirements on *investment firms* which are:

- (1) engaging in *algorithmic trading*; or
- (2) providing the service of *DEA* to a *trading venue*; or
- (3) providing the service of acting as a general clearing member for another *person*.

[**Note:** related requirements imposed under article 48 of *MiFID* upon *trading venues*, in respect of members and participants engaging in *algorithmic trading* and providing the service of *DEA*, are transposed in ■ REC 2, ■ MAR 5 and ■ MAR 5A]

7A

		<div></div> <div>7A.3</div> <div>Requirements for algorithmic trading</div>
		<div>Application</div>
7A.3.1	R	This section applies to a <i>firm</i> which engages in <i>algorithmic trading</i> .
		<div>Systems and controls</div>
7A.3.2	R	<p>A <i>firm</i> must have in place effective systems and controls, suitable to the business it operates, to ensure that its trading systems:</p> <ul style="list-style-type: none">(1) are resilient and have sufficient capacity;(2) are subject to appropriate trading thresholds and limits;(3) prevent the sending of erroneous orders, or the systems otherwise functioning in a way that may create or contribute to a disorderly market; and(4) cannot be used for any purpose that is contrary to:<ul style="list-style-type: none">(a) the <i>Market Abuse Regulation</i>; or(b) the rules of a <i>trading venue</i> to which it is connected. <p>[Note: article 17(1) of <i>MiFID</i> and <i>MiFID RTS 6</i> specifying the organisational requirements of <i>investment firms</i> engaged in <i>algorithmic trading</i>]</p>
7A.3.3	R	<p>A <i>firm</i> must:</p> <ul style="list-style-type: none">(1) have in place effective business continuity arrangements to deal with any failure of its trading systems; and(2) ensure that its systems are fully tested and properly monitored to ensure that it meets the requirements of (1) and of ■ MAR 7A.3.2R. <p>[Note: article 17(1) of <i>MiFID</i> and <i>MiFID RTS 6</i> specifying the organisational requirements of investment firms engaged in <i>algorithmic trading</i>]</p>
		<div>Market making</div>
7A.3.4	R	Where a <i>firm</i> engages in <i>algorithmic trading</i> to pursue a <i>market making strategy</i> , it must:

- (1) carry out market making continuously during a specified proportion of the *trading venue's* trading hours so that it provides liquidity on a regular and predictable basis to that *trading venue*, except in exceptional circumstances;
- (2) enter into a binding written agreement with the *trading venue* which must specify the requirements for the purpose of (1); and
- (3) have in place effective systems and controls to ensure that it meets the obligations under the agreement in (2).

[Note: article 17(3) of *MiFID*, *MiFID RTS 8* specifying the circumstances in which a *person* would be obliged to enter into the market making agreement referred to in ■ MAR 7A.3.4R(2) and the content of such an agreement, including the specified proportion of the *trading venue's* trading hours, and the situations constituting exceptional circumstances, referred to in ■ MAR 7A.3.4R(1)]

7A.3.5

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For the purpose of ■ MAR 7A.3.4R, the *firm* must take into account:

- (1) the liquidity, scale and nature of the specific market; and
- (2) the characteristics of the instrument traded.

[Note: article 17(3) of *MiFID*]

Notifications

7A.3.6

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A *firm* which is a member or participant of a *trading venue* must immediately notify the *FCA* if it is engaging in *algorithmic trading* in the *UK* or in an *EEA State*. [Note: article 17(2) of *MiFID*]

7A.3.7

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A *firm* must provide the following, at the *FCA's* request, within 14 days from receipt of the request:

- (1) a description of the nature of its *algorithmic trading* strategies;
- (2) details of the trading parameters or limits to which the *firm's* system is subject;
- (3) evidence that ■ MAR 7A.3.2R (systems and controls) and ■ MAR 7A.3.3R (business continuity and system tests) are met;
- (4) details of the testing of the *firm's* systems;
- (5) the records in ■ MAR 7A.3.8R(2) (accurate and time-sequenced records of all its placed orders); and
- (6) any further information about the *firm's algorithmic trading* and systems used for that trading.

[Note: article 17(2) of *MiFID*]

Record keeping

7A.3.8

RA *firm* must:

- (1) arrange for records to be kept to enable it to meet ■ MAR 7A.3.7R; and
- (2) (where it engages in a *high-frequency algorithmic trading technique*) store, in the approved form, accurate and time-sequenced records of all its placed orders, including:
 - (a) cancelled orders;
 - (b) executed orders; and
 - (c) quotations on *trading venues*.

[**Note:** article 17(2) of *MiFID* and *MiFID RTS 6* specifying the format and content of the approved form referred to in ■ MAR 7A.3.8R(2), and the length of time for which records must be kept by the *firm*]

7A.4 Requirements when providing direct electronic access

Application

- 7A.4.1** **R** This section applies to a *firm* which provides the services of *DEA* to a *trading venue*.

Systems and controls

- 7A.4.2** **R** A *firm* must have in place systems and controls which:
- (1) ensure it conducts an assessment and review of the suitability of *clients* using the service;
 - (2) prevent *clients* using the service from exceeding appropriate pre-set trading and credit thresholds;
 - (3) prevent trading by *clients* which:
 - (a) may create risks to the *firm*;
 - (b) or may create, or contribute to, a disorderly market; or
 - (c) could be contrary to the *Market Abuse Regulation* or the rules of the *trading venue*.

[Note: article 17(5) of *MiFID*]

Client dealings

- 7A.4.3** **R**
- (1) A *firm* must monitor the transactions made by *clients* using the service to identify:
 - (a) infringements of the rules of the *trading venue*; or
 - (b) disorderly trading conditions; or
 - (c) conduct which may involve *market abuse* and which is to be reported to the *FCA*.
 - (2) A *firm* must have a binding written agreement with each *client* which:
 - (a) details the essential rights and obligations of both parties arising from the provision of the service; and

(b) states that the *firm* is responsible for ensuring the *client* complies with the requirements of *MiFID* and the rules of the *trading venue*.

[Note: article 17(5) of *MiFID*] Notifications

Notifications

7A.4.4 R A *firm* must immediately notify the *FCA* if it is providing *DEA* services. [Note: article 17(5) of *MiFID* and *MiFID RTS 6* specifying the organisational requirements of *investment firms* providing *direct electronic access*]

7A.4.5 R A *firm* must provide the following, at the *FCA*’s request, within 14 days from receipt of the request:

- (1) a description of the systems mentioned in ■ MAR 7A.4.2R(1);
- (2) evidence that those systems have been applied; and
- (3) information stored in accordance with ■ MAR 7A.4.6R.

[Note: article 17(5) of *MiFID*]

Record keeping

7A.4.6 R A *firm* must arrange for records to be kept:

- (1) on the matters referred to in ■ MAR 7A.4.2R in relation to its systems and controls; and
- (2) in order to enable it to meet any requirement imposed on it under ■ MAR 7A.4.5R.

[Note: article 17(5) of *MiFID*]

		<div>7A.5</div> <div>Requirements when acting as a general clearing member</div>
		<div>Application</div>
7A.5.1	R	This section applies to a <i>firm</i> which provides the service of acting as a general clearing member.
		<div>Requirements</div>
7A.5.2	R	<div>A <i>firm</i> must:</div> <div><div>(1) have clear criteria as to the suitability requirements of <i>persons</i> to whom clearing services will be provided;</div><div>(2) apply those criteria;</div><div>(3) impose requirements on the <i>persons</i> to whom clearing services are being provided to reduce risks to the <i>firm</i> and to the market; and</div><div>(4) have a binding written agreement with any <i>person</i> to whom it is providing clearing services, detailing the essential rights and obligations of both parties arising from the provision of the services.</div></div> <div>[Note: article 17(6) of <i>MiFID</i> and <i>MiFID RTS 6</i> specifying the organisational requirements of <i>investment firms</i> acting as general clearing members]</div>

