

Chapter 7A

Algorithmic trading

7A.1 Application

Who?

7A.1.1

R

This chapter applies to :

- (1) a *UK MiFID investment firm*; and
- (2) a *third country investment firm*, with an establishment in the *United Kingdom*.

What?

7A.1.2

R

This chapter applies to a *firm* in relation to the following activities:

- (1) *algorithmic trading* (■ MAR 7A.3);
- (2) providing the service of *DEA* to a *trading venue* (■ MAR 7A.4); and
- (3) providing the service of acting as a general clearing member for another *person* (■ MAR 7A.5).

[**Note:** this chapter transposes article 17 of *MiFID*, in respect of the types of *firms* referred to above. Parts 4 of the *MiFI Regulations* sets out equivalent requirements in respect of *persons* exempt under article 2(1)(a), (e), (i) and (j) of *MiFID*, which are required to comply with article 17(1) to (6) of *MiFID* due to article 1(5) of *MiFID*.]

Status of EU provisions as rules in certain instances

7A.1.3

G

■ GEN 2.2.22AR applies to ensure that a *third country investment firm* should not be treated in a more favourable way than an *EEA firm*.



7A.2 Purpose

- 7A.2.1** **G** 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.3 Requirements for algorithmic trading

Application

7A.3.1 **R** This section applies to a *firm* which engages in *algorithmic trading*.

Systems and controls

7A.3.2 **R** A *firm* must have in place effective systems and controls, suitable to the business it operates, to ensure that its trading systems:

- (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:
 - (a) the *Market Abuse Regulation*; or
 - (b) the rules of a *trading venue* to which it is connected.

[**Note:** article 17(1) of *MiFID* and *MiFID RTS 6* specifying the organisational requirements of *investment firms* engaged in *algorithmic trading*]

7A.3.3 **R** A *firm* must:

- (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**.

[**Note:** article 17(1) of *MiFID* and *MiFID RTS 6* specifying the organisational requirements of investment firms engaged in *algorithmic trading*]

Market making

7A.3.4 **R** Where a *firm* engages in *algorithmic trading* to pursue a *market making strategy*, 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 **R** 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 **R** 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 **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 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*]

7A.5 Requirements when acting as a general clearing member

Application

7A.5.1 **R** This section applies to a *firm* which provides the service of acting as a general clearing member.

Requirements

7A.5.2 **R** A *firm* must:

- (1) have clear criteria as to the suitability requirements of *persons* to whom clearing services will be provided;
- (2) apply those criteria;
- (3) impose requirements on the *persons* to whom clearing services are being provided to reduce risks to the *firm* and to the market; and
- (4) have a binding written agreement with any *person* to whom it is providing clearing services, detailing the essential rights and obligations of both parties arising from the provision of the services.

[**Note:** article 17(6) of *MiFID* and *MiFID RTS 6* specifying the organisational requirements of *investment firms* acting as general clearing members]

