Chapter 7A

Algorithmic trading

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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*]

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Record keeping

7A.3.8   R   A *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*]