Chapter 29

Commission Delegated Regulation (EU) 2017/589

Article 15 Pre-trade controls on order entry(Article 17(1) of Directive 2014/65/EU)

(1) An investment firm shall carry out the following pre-trade controls on order entry for all financial instruments:

(a) price collars, which automatically block or cancel orders that do not meet set price parameters, differentiating between different financial instruments, both on an order-by-order basis and over a specified period of time;

(b) maximum order values, which prevent orders with an uncommonly large order value from entering the order book;

(c) maximum order volumes, which prevent orders with an uncommonly large order size from entering the order book;

(d) maximum messages limits, which prevent sending an excessive number of messages to order books pertaining to the submission, modification or cancellation of an order.

(2) An investment firm shall immediately include all orders sent to a trading venue into the calculation of the pre-trade limits referred to in paragraph 1.

(3) An investment firm shall have in place repeated automated execution throttles which control the number of times an algorithmic trading strategy has been applied. After a pre-determined number of repeated executions, the trading system shall be automatically disabled until re-enabled by a designated staff member.

(4) An investment firm shall set market and credit risk limits that are based on its capital base, its clearing arrangements, its trading strategy, its risk tolerance, experience and certain variables, such as the length of time the investment firm has been engaged in algorithmic trading and its reliance on third-party vendors. The investment firm shall adjust those market and credit risk limits to account for the changing impact of the orders on the relevant market due to different price and liquidity levels.

(5) An investment firm shall automatically block or cancel orders from a trader if it becomes aware that that trader does not have permission to trade a particular financial instrument. An investment firm shall automatically block or cancel orders where those orders risk compromising the investment firm's own risk thresholds. Controls shall be

applied, where appropriate, on exposures to individual clients, financial instruments, traders, trading desks or the investment firm as a whole.

(6) An investment firm shall have procedures and arrangements in place for dealing with orders which have been blocked by the investment firm's pre-trade controls but which the investment firm nevertheless wishes to submit. Such procedures and arrangements shall be applied in relation to a specific trade on a temporary basis and in exceptional circumstances. They shall be subject to verification by the risk management function and authorisation by a designated individual of the investment firm.