

## **Chapter 29**

# **Commission Delegated Regulation (EU) 2017/589**

Article 5 General methodology(Article 17(1)  
of Directive 2014/65/EU)

(1) Prior to the deployment or substantial update of an algorithmic trading system, trading algorithm or algorithmic trading strategy, an investment firm shall establish clearly delineated methodologies to develop and test such systems, algorithms or strategies.

(2) A person designated by the senior management of the investment firm shall authorise the deployment or substantial update of an algorithmic trading system, trading algorithm or algorithmic trading strategy.

(3) The methodologies referred to in paragraph 1 shall address the design, performance, recordkeeping and approval of the algorithmic trading system, trading algorithm or algorithmic trading strategy. They shall also set out the allocation of responsibilities, the allocation of sufficient resources and the procedures to seek instructions within the investment firm.

(4) The methodologies referred to in paragraph 1 shall ensure that the algorithmic trading system, trading algorithm or algorithmic trading strategy:

(a) does not behave in an unintended manner;

(b) complies with the investment firm's obligations under this Regulation;

(c) complies with the rules and systems of the trading venues accessed by the investment firm;

(d) does not contribute to disorderly trading conditions, continues to work effectively in stressed market conditions and, where necessary under those conditions, allows for the switching off of the algorithmic trading system or trading algorithm.

(5) An investment firm shall adapt its testing methodologies to the trading venues and markets where the trading algorithm will be deployed. An investment firm shall undertake further testing if there are substantial changes to the algorithmic trading system or to the access to the trading venue in which the algorithmic trading system, trading algorithm or algorithmic trading strategy are to be used.

(6) Paragraphs 2 to 5 shall only apply to trading algorithms leading to order execution.

(7) An investment firm shall keep records of any material change made to the software used for algorithmic trading, allowing it to determine:

- (a) when a change was made;
- (b) the person that has made the change;
- (c) the person that has approved the change;
- (d) the nature of the change.