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Marking the Open

PROCEDURE DOCUMENTATION →

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Overview

The **Marking the Open** procedure identifies orders placed near the opening time that appear to have influenced the price immediately after the opening.

The purpose of this procedure is to flag suspicious trading activity near the Market opening time that may result in price manipulation.

This procedure is designed for US Equities. For Futures, use **Marking the Open (Futures)**.

Background

SEC

▼ *Securities Exchange Act, Sections 10(b) and 9(a)(2)*

Securities Exchange Act, Sections 10(b) and 9(a)(2) prohibits manipulation of securities prices and makes it unlawful to effect, alone or with one or more other persons, a series of transactions in any security creating actual or apparent active trading in such security, or raising or depressing the price of such security, for the purpose of inducing the purchase or sale of such security by others.

▼ *SEC Rule10b-5*

SEC Rule 10b-5 prohibits fraud, misrepresentation, and deceit in connection with the purchase or sale of any security and makes it unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce or of the mails or of any facility of any national securities exchange, to use any device, scheme, or artifice to defraud.

FINRA

Rule 2020 prohibits securities brokers and dealers from effecting any transaction in, or inducing the purchase or sale of, any security by means of any manipulative, deceptive, or other fraudulent device or contrivance.

Coverage

Asset Class

This procedure is US Equities specific. For Futures, use **Marking the Open (Futures)**.

Venue

This procedure is not venue specific.

Data Requirements

Reference data must contain ADV.

Configuration Strategy

These recommendations are merely a starting point. Configuration is based on each firm’s unique business needs and should be reviewed periodically.

As a starting point it is recommended to configure the procedure with a five minute (300 second) **Baseline Time**, 60 second **Sample Time**, 0.02 (2%) **Allowable Price Movement (fractional)** or 2 standard deviation **Allowable price movement (stddev)**, and an **Allowable fraction of trading during sample** of 0.2 (20%).

These parameters will need to be adjusted based on each firm’s expected trading practices.

The procedure can be cloned and implemented multiple times to cover a firm with a diversified trading business across multiple markets.

How It Works

Marking the Open is intended to alert when prices move in one direction during a short period immediately after the Market open, relative to the Volume Weighted Average Price (VWAP) established during a baseline period after the opening period, with a predominant number of trades during the sample period.

The **Marking the Open** procedure works by comparing VWAP during a period of time after the opening period (**Baseline Time**) to the VWAP just after the open (**Sample Time)**.

Other parameters of the procedure are price and trading activity thresholds and ADV range. The **Allowable price movement** parameters can be expressed as a fraction of the baseline VWAP, or as a number of standard deviations from VWAP.

The **Allowable fraction of trading during sample** parameter defines the maximum fraction of the number of fills allowed by the account for a given symbol to the total number of trades in that symbol in the Market over the sample interval. Here, the sample interval (**Sample Time**) is defined as the number of seconds after the Market open.

The **ADV minimum/maximum** range, if specified, further narrows symbol eligibility to those with ADV within the range.

Alerts

Alerts are generated for trades (fills) in eligible symbols near the opening time (within **Sample Time**), with prices over the configured threshold (i.e., too far from baseline VWAP), provided that the fraction of the total number of the account trades for that symbol in the sample interval with respect to the total number of Market trades in the sample interval is also over the threshold.

If price threshold is not specified, alerts will be generated for all fills in the sample interval if the number of trades is over the threshold.

Alert text reads as follows, depending on which threshold for allowable price movement is set:

- **Allowable price movement (fractional)**:

```
[Side] fill for qty [Qty] of [Symbol] at [Source TM] may be considered
marking the open because the price [Dir] by more than [Price Limit]% from the
baseline time window and the activity during the sample was [Trade PCT]% of
the overall activity which is greater than [Trade PCT Limit] required.
```

- **Allowable price movement (stddev)**:

```
[Side] fill for qty [Qty] of [Symbol] at [Source TM] may be considered
marking the open because the price [Dir] by more than [Stddev Limit]
multiples of the standard deviation from the baseline time window and the
activity during the sample was [Trade PCT]% of the overall activity which is
greater than [Trade PCT Limit] required.
```