

# Bank of England

## PRA Rulebook

### Prudential Regulation Authority Rulebook

#### Part

#### Algorithmic Trading

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#### Related Links

SS5/18 – Algorithmic trading	<a href="https://www.prarulebook.co.uk/guidance/supervisory-statements/ss05-18---algorithmic-trading">https://www.prarulebook.co.uk/guidance/supervisory-statements/ss05-18---algorithmic-trading</a>
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#### Chapters

1 Application and Definitions

2 Algorithmic Trading

### 1 Application and Definitions

1.1 Unless otherwise stated, this Part applies to a *CRR firm* that engages in *algorithmic trading*.

03/01/2018

1.2 *2.4* and *2.5* apply to a *CRR firm* that provides the services of *direct electronic access* to a *trading venue*.

03/01/2018

1.3 In this Part, the following definitions shall apply:

**algorithmic trading**

means trading in **financial instruments** where a computer algorithm automatically determines individual parameters of orders such as whether to initiate the order, the timing, price or quantity of the order or how to manage the order after its submission, with limited or no human intervention, and does not include any system that is only used for the purpose of routing orders to one or more **trading venues** or for the processing of orders involving no determination of any trading parameters or for the confirmation of orders or the post-trade processing of executed transactions.

**direct electronic access**

means an arrangement where a member or participant or **client** of a **trading venue** permits a **person** to use its trading code so the **person** can electronically transmit orders relating to a **financial instrument** directly to the **trading venue** and includes arrangements which involve the use by a **person** of the infrastructure of the member or participant or **client**, or any connecting system provided by the member or participant or **client**, to transmit the orders (direct market access) and arrangements where such an infrastructure is not used by a **person** (sponsored access).

**trading venue**

means a **regulated market**, an **MTF** or an **OTF**.

31/12/2020

1.4 [Deleted.]

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## 2 Algorithmic Trading

2.1 A **firm** must have in place effective systems and risk 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; and
- (3) prevent the sending of erroneous orders, or the systems otherwise functioning in a way that may create or contribute to a disorderly market.

[Note: Art. 17(1) of **MiFID II**]

03/01/2018

## 2.2 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 they meet the requirements of (1) and **2.1**.

[Note: Art. 17(1) of **MiFID II**]

03/01/2018

## 2.3 A **firm** must make and retain the following records:

- (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 **2.1** and **2.2** are met;
- (4) details of the approach to testing of the **firm's** systems;
- (5) the information obtained in performing, the outcome of, and any actions taken as a result of, each test of the **firm's** systems; and
- (6) any further relevant information about the **firm's algorithmic trading** and systems used for that trading.

[Note: Article 17(2) of **MiFID II**. See Articles 28 and 29 of Commission Delegated Regulation (EU) No 2017/589 of 19 July 2016 supplementing MiFID II with regard to regulatory technical standards specifying the organisational requirements of investment firms engaged in algorithmic trading, providing direct electronic access and acting as general clearing members for related provisions.]

03/01/2018

2.4 A ***firm*** that provides ***direct electronic access*** to a ***trading venue*** must have in place:

- (1) systems and controls that enable it to assess and review the suitability of ***clients*** using the service of ***direct electronic access*** to a ***trading venue***;
- (2) systems and controls that prevent ***clients*** using the service from exceeding appropriate pre-set trading and credit thresholds; and
- (3) appropriate systems and controls that prevent trading by ***clients*** which may create risks to the ***firm***.

[Note: Art. 17(5) of ***MiFID II***]

03/01/2018

2.5 A ***firm*** that provides ***direct electronic access*** to a ***trading venue*** must make and retain the following records if it provides ***direct electronic access*** services:

- (1) a description of the systems and controls in 2.4;
- (2) evidence that those systems and controls have been applied; and
- (3) on other relevant matters referred to in 2.4 in relation to systems and controls.

[Note: Art. 17(5) of ***MiFID II***]

03/01/2018