# Surveillance Rule

## Front Running

### Version 1

## Definition.

Front running occurs when a client order is received to trade in a security. A personal order is then executed against the security with intention to profit using the information on the client orders expected impact to the prevailing trading price.

## Red Deer Rule Implementation.

Required data.

Personal trading activities that have been disclosed by the employees. This must include whether the order was to buy/sell; the exact time the trade was executed; and the securities included in the trade.

Orders from the corporate trading system including buy/sell; the exact time the trade was executed; and the securities that were traded.

Rule parameters.

Trade proximity in time.

Rule.

If a personal trade is executed within the trade proximity of the corporate order an alert is raised.

If the client order was buy and the personal order was buy then the rule is evaluated by whether it preceded the client order by the trade proximity time value.

If the client order was buy and the personal order was sell then the rule is evaluated by whether it succeeded the client order by the trade proximity time value.

If the client order was sell and the personal order was sell then the rule is evaluated by whether it preceded the client order by the trade proximity time value.

If the client order was sell and the personal order was buy then the rule is evaluated by whether it succeeded the client order by the trade proximity time value.

## Future editions.

A more sophisticated implementation would have a function to evaluate trade proximity timing by the volume of the client trade and the liquidity in the market.

We will need to be able to account for trading in derivatives and how we can link these to the client orders.

We will need to be able to identify trading in related assets that will benefit from a price movement in a given stock through correlation analysis.