PRA RULEBOOK: CRR FIRMS: ALGORITHMIC TRADING INSTRUMENT 2016

Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

   (1) section 137G (The PRA's general rules); and
   (2) section 137T (General supplementary powers).

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

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D. The PRA makes the rules in the Annex to this instrument.

Commencement

E. This instrument shall come into force on the date specified by a subsequent PRA Board Instrument.

Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms: Algorithmic Trading Instrument 2016.

By order of the Board of the Prudential Regulation Authority
24 October 2016

Annex

In this Annex, the text is all new and is not underlined.

Part

ALGORITHMIC TRADING

Chapter content

1. **APPLICATION AND DEFINITIONS**
2. **ALGORITHMIC TRADING**

Links

1 APPLICATION AND DEFINITIONS

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

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

1.3. In this Part, the following definitions shall apply:

algorithmic trading

> has the meaning given in Article 4(1)(39) of *MiFID II.*

direct electronic access

> has the meaning given in Article 4(1)(41) of *MiFID II.*

trading venue

> has the meaning given in Article 4(1)(24) of *MiFID II.*

1.4. The definitions in *MiFID II* referred to in 1.3 shall be read on the basis that references in that directive to a 'regulated market', an 'MTF' or an 'OTF' are references to:

> (1) a system falling within any of Articles 4(1)(21), (22) and (23) of *MiFID II* respectively; and

> (2) a system that is not situated in an *EEA State* that would have fallen within (1) had it been so situated.

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*]

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*]

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: Art. 17(2) of *MiFID II*. See Articles 28 and 29 of Commission Delegated Regulation (EU) No …/.. of [date] 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.]

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*]

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*]