Order-Driven Trading Service

Core order-driven trading service rules

Access to the Exchange trading system and the responsibility of member firms [4100-4110]

Order routing [4105-4110]

G 4105 A **member firm** may provide an automatic order routing facility which enables another **member firm** or a non-member to route orders through it directly to the **Exchange trading system**.

G 4106 A **member firm** which submits or routes orders to the **Exchange trading system** shall, at all times, have sufficient order management systems, procedures and controls designed to prevent the entry of erroneous orders to the **Exchange trading system**.

G 4107 A **member firm** providing a facility under rule 4105 must notify the **Exchange** in writing not less than 7 days before starting to provide the facility and within 7 days of ceasing to provide it.

Supplementary Guidance

Order-Driven Trading Services

Core order-driven trading service rules

Order Routing [4105-4107]

4105 Order routing is the receipt and transmission to the **Exchange trading system** of third party orders by a **member firm** and automatic routing is the receipt and transmission of such orders by electronic means without manual intervention. For the purpose of this rule direct market access order flow is considered to be order routing.

This guidance does not cover the situation of a **member firm** entering orders on behalf of non-member clients where the **member firm** manually inputs the orders.

Erroneous orders

4106 An erroneous order is an order entered mistakenly where there was no intention to trade in the security or an order where the terms entered, mistakenly, did not represent the intended transaction. For the avoidance of doubt the terms of an order include both price and size.

In determining whether an order is erroneous, the **Exchange** will ask the **member firm** for details of the background to the order. Below is a non-exhaustive list of scenarios where the **Exchange** may query an order with a **member firm**:

- orders that exceed the **Exchange's** price monitoring thresholds;
- an aggressively priced **limit order** that executes against a significant number of orders on one side of the order book, which could take place, for example, if price and size have been entered in the wrong fields;
- an order that creates multiple executions e.g. a tranching facility that divides orders into an order size either not intended by the firm or which is of a size so small as to be inappropriate; or
- a very high priced buy order or a very low priced sell order entered into the auction period when it might be more appropriate to use a market order to guarantee execution.

Member firms should ensure that their systems are designed to identify and prevent the entry of erroneous orders to the **Exchange trading system**. In determining whether a **member firm's** systems are adequate in this regard, **member firms** should consider the use of controls and system alerts, which may be based on some or all of the following:

- the last order book traded price (from the previous day if appropriate);
- the current spread in the market;
- trader, security-specific or firm-wide size and price limits;~~ and~~
- the likely movement in the price of the security if the order is submitted~~; and~~
- a minimum order size of a certain financial consideration per order; and
- controls on the price of **limit orders** submitted during an auction, to avoid aggressively priced **limit orders** being used instead of **market orders**.

The above list is not exhaustive and **member firms** are likely to wish to develop their own bespoke controls and system alerts to prevent the entry of orders which, because of their price, size and nature, could impact on the smooth running of the market.

Although **member firms** should aim to prevent the entry of all erroneous orders, the purpose of any system alerts should be to prevent the entry of orders containing errors which, because of their size and nature, may impact on the smooth running of the market.

The parameters for any such alerts should be determined by each **member firm**, with reference to the nature of its business. Parameters should be set at levels such that, if no alert is generated in relation to any particular order, then the **member firm** should be satisfied with the execution ~~price(s)~~ achieved.

Member firms' procedures and controls should be designed to ensure that orders are entered correctly and that any alerts generated are responded to appropriately.

Member firms should be aware that in deciding what action to take against a **member firm** for the submission of any apparently erroneous order, the **Exchange** will consider both the potential and the actual market impact. It is also likely to have regard to the relative frequency with which the **member firm** submits such erroneous orders.

Order Routing including DMA (Direct Market Access)

The Exchange is aware that **member firms** may have contractual arrangements with their order routing **clients**, which mean that the **client** bears the financial risks of entering erroneous orders.

However, under the **Exchange's Rules**, the responsibility for such orders rests wholly with the **member firm** in whose name the order is entered. Whilst ongoing education, training and guidance for a **member firm's** order routing **client** is to be encouraged, this cannot entirely replace the safeguards that internal system controls and alerting functionality can provide.

In order to prevent the submission of erroneous orders by a **client**, a **member firm** may wish to consider the following controls and system alerts:

- prevention of submission of an order if the **client** has overridden alerts and/or notification to the **member firm** that the **client** has attempted to over-ride the alert;

- training given to those **clients** entering orders;

The **Exchange** expects a **member firm** to be able to delete a **client's** order from the **Exchange Trading System** or, if necessary, restrict the **client's** ability to enter orders, without having the express consent of the **client.** Such action by the **member firm** may be instigated by the **member firm** because of its own concerns regarding the **client's** behaviour or at the specific request of the **Exchange**.

4107 Rule 4107 requires **member firms** to inform ~~Market Supervision~~ the Client Implementation team (clientimplementation@londonstockexchange.com) in writing if they begin providing automatic third party order routing facilities to third parties or when they discontinue the provision of such a facility. The purpose of this requirement is to ensure ~~Market Supervision~~ the **Exchange** has a record of all those **member firms** that provide third parties with the facility to automatically input orders to the **Exchange trading system**. In this context 'third parties' include non-member firms, institutions and individuals. Note that a **member firm** is not required to notify the **Exchange** separately each time it offers an order routing facility to a new third party.