afme/ Finance for Europe

ASSOCIATION FOR FINANCIAL MARKETS IN EUROPE AND THE INVESTMENT ASSOCIATION

EQUITIES ELECTRONIC ORDER HANDLING QUESTIONNAIRE

March 2024

ASSOCIATION FOR
FINANCIAL MARKETS IN EUROPE (AFME):

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME advocates stable, competitive and sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA), an international alliance that includes the Securities Industry and Financial Markets Association (SIFMA) in the US and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

ABOUT
THE INVESTMENT ASSOCIATION (IA):

The Investment Association champions UK investment management, supporting British savers, investors and businesses. Our 250 members manage £8.8 trillion of assets and the investment management industry supports 126,400 jobs across the UK.

The IA's purpose is to ensure investment managers are in the best possible position to:

• Build people's resilience to financial adversity

• Help people achieve their financial aspirations

• Enable people to maintain a decent standard of living as they grow older

• Contribute to economic growth through the efficient allocation of capital.

The money IA members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs.

The UK is the second largest investment management centre in the world, after the US and manages 37% of all assets managed in Europe.

PREAMBLE

- This Equities Electronic Order Handling Questionnaire ('Questionnaire') has been created through the collaborative effort of the members of The Investment Association (IA) and the Association for Financial Markets in Europe (AFME) ('Associations').

- The purpose of the Questionnaire is to establish a common, non-exhaustive, framework for the request for information from clients to their electronic trading service providers. There is no obligation on a client of an electronic trading service provider to use this Questionnaire. This Questionnaire is being issued for information purposes only and may be used by a client of an electronic trading service provider as a framework to be adapted and used to reflect the client's specific circumstances and needs. This Questionnaire is not intended to constitute advice in relation to any specific situation and you should take independent legal, financial, investment, regulatory, business accountancy, tax or other professional advice in relation to any transactions which may take place. This Questionnaire has not been produced to meet the individual requirements of any particular person and it is your responsibility to satisfy yourself prior to using this Questionnaire that it is suitable for your purpose.

- The scope of the Questionnaire is limited to equity/equity-like European Economic Area ('EEA') and UK securities which are traded through a firm based in the EEA and the UK that is a regulated firm under Directive 2014/65/EU ("the Markets in Financial Instruments Directive" or "MiFID II"), and associated national laws, in the EEA and UK unless otherwise specified.

- The responses to these questions refer to the securities mentioned above which are traded through electronic trading systems only.

- The information provided in response to this Questionnaire is strictly confidential and for the benefit of the recipient firm and its affiliates only.

- The responses to these questions are valid for professional clients, unless otherwise specified in the specific response.

- The information is valid at the point in time when it is provided.

- Neither Association, nor any of their respective directors, officers, employees, partners, shareholders, affiliates, associates, members or agents, makes any representation or warranty, express or implied or be liable to any person for any loss or damage whether direct or indirect or howsoever arising in relation to the use of this Questionnaire (including without limitation as to its suitability, completeness or fitness for purpose, acting or refraining to act in relation to this Questionnaire or the responses to it or any decision based on the Questionnaire or the responses to it). Any liability for the responses to this Questionnaire provided by an electronic trading service provider is set out in Annex I.

QUESTIONNAIRE

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A) GENERAL FIRM

1. Please list all broker entities/countries that are covered by the responses to the questionnaire.

B) ANALYTICAL CAPABILITIES

2. Please describe as comprehensively as possible the pre-trade, real time and post-trade TCA capabilities you can offer.

3. If provided, does your post-trade analysis detailing the venues you have traded with (Y/N)?

    a. If no, please explain why?

C) DATA

4. Is your TCA product internally created or do you utilise a third party?

    a. If a third party, which providers do you use?

D) COMPLIANCE

5. How do you aggregate orders of the same characteristics from different clients?

6. Please confirm who gets sight of our algorithmic orders.

7. Please explain how you monitor orders on the desk.

8. Please describe what controls, processes and procedures are in place to protect client anonymity.

    a. How do you code clients?

9. Please describe the team structure for electronic trading including roles and responsibilities. Please describe where your electronic trading function sits within your firm and provide escalation points.

10. Please attach a copy or summary of your firm's conflict of interest policy.

E) INDICATION OF INTEREST

11. Does your firm have a platform or process for automatically generating principal or proprietary IOIs (Y/N)?

    a. If Yes, are those IOIs available as actionable IOIs (Y/N) How are these IOIs tagged or categorised separately from client order originated or manual principal and proprietary IOIs.

    b. Describe the general or default methodology for High Touch, Low Touch, Program IOI generation when the IOI is being generated in response to a client order.

    c. If you operate tiering to determine how clients see which IOIs, please confirm which tier our firm is currently residing in.

12. To the best of your knowledge, does any venue you access receive or transmit order information to other destinations or participants via liquidity indications or IOIs (Y/N)?

    a. If Yes, please describe.

F) SMART ORDER ROUTING

13. Is your SOR developed in-house (Y/N)?

    a. If No, please explain what customisation (if any) abilities you are able to add to its behaviour logic? Please outline the oversight process with the provider on performance and potential improvements?

14. Can the SOR be considered a separate piece of technology with its own functionality, code base, infrastructure, etc.? Or is it integrated into upstream order execution decision making?

15. How does the SOR decision-making process work ?

16. Explain how your SOR controls the timing of child orders when sending orders to multiple venues to minimise the difference in the arrival time at each venue and how this is monitored?

17. Explain whether your SOR take into account any factors when evaluating the likelihood of execution on a venue, such as market share of venue, fill rate, hit rate, consistency of latency, mean reversion, etc?

18. Does your SOR use EBBO "best /bid offer" data in its routing decisions (Y/N)?

    a. If No, please explain why?

19. Do you delegate any routing decisions to third parties (Y/N)?

    a. If Yes, please provide a detailed explanation.

20. With regards to default SOR behaviour, are there any configuration rules that cause changes to your logic from the default for our firm's orders (Y/N)?

21. Notwithstanding specific client liquidity or venue preferences, are there venues you connect to but do not route orders to?

22. Do you change routing preferences in order to meet volume tiers to reduce your costs?

G) FIX TAGS

23. Do you provide industry standard values for tag 29, 30, 527 and 851 for each child order execution (Y/N)?

    a. If no, or if additional tags provided, please explain.

24. Are there additional FIX tags your firm may populate to a client that indicates any information regarding the status of another client's order?

25. If you trade with another firm's SI, do you provide that MIC Code in Tag 30 rather than the generic XOFF code?

H) BEST EXECUTION AND VENUE SELECTION

26. Please provide a copy or summary of your best execution policy.

27. Do you allow clients to instruct you not to route orders to a particular venue (Y/N)?

   a. If no, please explain why.

28. How do you ensure prompt processing of incoming electronically transmitted orders received by your desks. If you have it, please provide a report with detailed response-time distribution and specify whether this is for a particular client's orders or the brokers global response time?

29. Can clients opt out of trading against specific types of flow that participate within any of your execution venues (Y/N)?

   a. If Yes, please provide details.

30. Do you place any restrictions or caps on the percentage of your client flow that is eligible for routing to a particular venue (Y/N)?

   a. If yes, what are the determining factors for those restrictions or caps?

31. Please provide a categorised list of all execution venues (RMs, MTFs, SIs, market makers, other liquidity providers) that your algorithmic strategies and/or SOR currently access.

32. List all the venues you access where you are not a member and access via a third party ?

   a. Do you have any ownership stakes or interests in trading venues (Y/N)? If Yes, please provide details of how you manage the potential conflict of interest in routing to these venues.

33. Do you execute orders with any affiliates (Y/N)?

34. Are there venues you connect to but where your firm does not post or take liquidity (Y/N)?

   a. If yes, please describe why.

35. Which types of venues do you consider in your dark algos?

36. What due diligence around the addition and removal of venues do you carry out. Is internal and external venue evaluation consistent (Y/N)?

   a. If no, please describe the differences.

37. Have you ceased trading on a venue for a period of greater than 1 month in response to execution quality concerns in the last calendar year (Y/N)?

   a. If Yes, please explain why, and for how long you ceased trading.

38. Please describe your minimum fill size protocol – is there a default? Are they dynamic per venue? Are they customisable per client request?

39. Do clients have the option to opt-out from the functionality of aggregating orders to fulfil minimum quantity (Y/N).

40. As part of your best execution processes, do you incorporate external venues' unwind policy and internalisation rates where applicable?

I) ALGORITHMIC TRADING

41. Explain the process for maintaining and improving an algorithmic strategy, including how regularly you make changes to the variables/factors driving the algorithmic strategy and how you communicate and/or get client approval of changes.

42. Please provide detailed information on your full algorithmic offering, including functionalities, scope for customisations, and categories (liquidity-seeking, IS, dark, open/ close etc.)

43. Are your algorithmic trading strategies for clients proprietarily developed in house or do you utilise (white label) third-party products? If utilising third-party products, please list each strategy and who owns or developed the strategies

44. What physical and electronic security measures are in place to minimise the risks of attacks against the algorithmic trading platform and prevent unauthorised access? Please include:

    a. description of your operational risk framework and IT security reviews;

    b. how duties are segregated; and

    c. a description of your access control process.

45. Do other equity trading desks (eg high touch) at your firm use the same algos when executing clients' orders (Y/N)?

    a. If no, please explain.

46. Please describe which "Trade At Last" venues your algorithms route to post the closing auction?

    a. is this on an opt-in or opt-out basis?

47. If an algo decides to access an execution venue either internal or external, do you have separate lines with any execution venues that identify the algo type or alpha profile of the strategy? (An example would be separately identifying VWAP orders from other types of algo flow) (Y/N)

    a. If yes, please explain

J) CLIENT CONFIDENTIALITY

48. Describe how your firm internally and/or externally communicates aggregated information about client electronic orders and trading activity, whether via reports or via data feeds?

49. What information (e.g. including but not limited to client name, side, size, price, instrument, limit) do you disclose to external SIs? Do you provide any profiling or analytics in aggregate, or on an order-by-order basis? If you do provide information on an order-by-order basis, please describe in more detail.

K) RISK CONTROLS

50. Describe how real-time monitoring of the algorithmic trading platform and strategy execution is performed.

51. What standard soft hold checks do you carry out on client orders?

52. What standard hard reject checks do you carry out on client orders?

53. How has the "kill functionality" been implemented within the algorithmic trading platform, who can trigger this and how is it triggered? Please include ability to cancel immediately any or all of its unexecuted orders submitted to any or all trading venues to which the investment firm is connected

54. What business continuity arrangements are in place to support the algorithmic trading platform, describe the process by which these measures are triggered? Please include arrangements to manage outstanding orders and positions

L) SYSTEMATIC INTERNALISER

55. Do you operate your own SI? (Y/N)

56. If yes, can you also provide a link to the commercial policy for your SI?

57. If you intend to connect to SIs, under what circumstances might orders be routed to external SI liquidity?

58. Please explain how your firm evaluates each external SIs market maker's unique liquidity in (i) large cap, (ii) mid cap and (iii) small cap stocks? Please include the types of streams you have set up with your market makers.
    a. Does it react to a quote feed or does it send a firm order?
    b. Does your SOR interact with multiple SI's after trading with another SI?
    c. Does the SOR employ any MES or MAQ logic or price peg protection?
    d. Do you employ any profiling?
    e. Do you also separate the flow you send to SIs into profiles, such as: toxic/benign, short/long duration flow, beginning/end of parent order?

59. How do you ensure you adhere to the regulation on tick sizes?

60. What information about client orders is passed to your internal liquidity providers: e.g. CRB.

61. What liquidity category choices (with complete description) are available to our firm in your SI? Will you identify the category on our execution fill?

62. What is your routing priority if my firm opts into external SIs?

M) AUDIT

63. Is your firm subject to internal and/or external audit (Y/N)?

N) TRAINING

64. Do you offer training and/or CPD on your electronic trading products?

ANNEX

ANNEX I - DISCLAIMER

Electronic Trading Service Provider's specific disclaimer to be inserted here.

ANNEX II - ABBREVIATIONS

Abbreviation	Explanation
AFME	The Association for Financial Markets in Europe
EEA	European Economic Area
FIX	Financial Information eXchange Protocol
IA	The Investment Association
IOI	Indication of Interest
MIC	Market Identifier Code
MiFID II	Markets in Financial Instruments Directive II (official title: Directive 2014/65/EU)
MTF	Multilateral Trading Facility
RM	Regulated Market
SI	Systematic Internaliser
SOR	Smart Order Router
TCA	Transaction Cost Analysis
XOFF	Venue identification code used to indicate a transaction is made off venue