

THE  
INVESTMENT  
ASSOCIATION

# ELECTRONIC TRADING FX ALGO DUE DILIGENCE QUESTIONNAIRE

February 2021



# INTRODUCTION:

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The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £8.5 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. The UK asset management industry is the largest in Europe and the second largest globally.

The IA and its members have created this Electronic Trading FX Algo Questionnaire to establish a common, non-exhaustive, framework for the request for information from clients to their FX algo providers.

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# QUESTIONNAIRE:

## A. EXTERNAL VENUE SELECTION AND LIQUIDITY POOLS

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1. What selection criteria is used when choosing execution venues?
2. 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.
3. How often do you review the execution venues you access?
4. Do you offer internal last look liquidity? (Y/N)
5. If yes, do you have a disclosure of practices?
6. Please explain the process for deciding whether to add or disable connectivity to a venue?
7. At what point would we be notified of a venue being switched on or off and how will we be notified?
8. Have you ceased or temporarily suspended trading on a venue or with certain liquidity providers in response to execution quality concerns in the last 5 years? (Y/N)
9. Do you in any way have a preference for one venue over another? (Y/N)
10. If yes, please explain why.
11. Do you have any ownership stakes or interests in trading venues which may cause a conflict with your routing practices and decisions. (Y/N)
12. If so, please describe these.
13. Aside from ownerships or interests in trading venues, are there any other incentives that may encourage you to trade on certain venues? (Y/N)
14. If so, please describe these.
15. Can the client select liquidity pools?

## B. ORDER HANDLING

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16. Have you signed the FX Global Code of Conduct? (Y/N)
17. Do you have a Best Execution Policy? (Y/N)
18. If yes, please provide a summary of your best execution policy and any further detail about how you deliver best execution.
19. How far back is execution data kept?
20. Do you have an in-house algorithmic trading solution, or do you utilise (white label) third-party products?
21. If you utilise third party products please describe which ones and how they are used?
22. Is your Smart Order Router (SOR) developed in-house? (Y/N)
23. If no, whose do you use?
24. What data sources do you include in your SOR?
25. If any of the above data sources were unavailable, would your SOR stop working? (Y/N)
26. Describe how you monitor that your SOR route orders to deliver best execution.
27. How do you define internalisation?
28. Do you have agreements to outsource algo liquidity to third parties which are tagged as internal?
29. Do you delegate any routing decisions to third parties?
30. How do you monitor latency of order routing and market data connectivity to exchanges?
31. How do you ensure prompt processing of incoming electronically transmitted orders received by your desks?
32. Can clients get information on rejected child orders?

## C. ALGORITHMIC TRADING

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33. List all the algorithmic strategies currently available to the client, including material drivers, and briefly describe their purpose. Please attach brochure/provide link.
34. Do you offer trading algorithm customisation? (Y/N)
35. Do your internal risk takers use the same trading algorithms listed under Question 33 when executing client orders? (Y/N)
36. If your internal risk takers do not use the same trading algorithms listed under Question 33 when executing client orders, please elaborate on the differences.
37. Within algorithmic trading do you offer different speeds to market depending on the client type or volume traded? (Y/N)
38. If yes, please explain.
39. Explain the process for maintaining and improving an algorithmic strategy or SOR's performance, including how regularly you make changes to the variables/factors driving the algorithmic strategy?
40. How do you acknowledge receipt of an order placement?
41. Once you provide a receipt, do you accept ownership and liability of that order?
42. Does your algorithm rely on any third-party infrastructure? (Y/N)
43. Does your algorithm permit liquidity providers to apply Last Look? (Y/N)

## D. ANALYTICS

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44. Do you offer Pre Trade Transaction Cost Analytics? (Y/N)
45. If yes, is it distributed automatically to clients?
46. If yes, via which channels?
47. Do you offer Real Time Transaction Cost Analytics? (Y/N)
48. If yes, is it distributed automatically to clients?
49. If yes, via which channels?
50. Do you offer Post Trade Transaction Cost Analytics? (Y/N)
51. If yes, is it distributed automatically to clients?
52. If yes, via which channels?
53. Do you offer Aggregate Transaction Cost Analytics? (Y/N)
54. If yes, is it distributed automatically to clients?
55. If yes, via which channels?
56. Do you offer access to analytics (Pre/Real Time/Post) via API?
57. Please list any third-party TCA providers used.
58. Please define how you calculate the arrival price?
59. Please define how you calculate risk transfer pricing?

## E. CLIENT CONFIDENTIALITY

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60. Do you execute orders with any affiliates? (Y/N)
61. If yes, what additional controls do you have in place to ensure conflicts are managed?
62. What information (e.g. including but not limited to client name, side, size, price, instrument, limit) do you disclose to external trading venues?
63. Please describe what controls, processes and procedures are in place to ensure client anonymity?
64. Which departments of your firm have the ability to see orders (and related execution information) traded via the electronic trading channel?
65. Can any other desks see client execution order flow which is not routed to that desk for execution? (Y/N)
66. If other desks see client execution order flow which is not routed to that desk for execution, what can they see and what is the rationale?
67. How is permission monitored to ensure that when an employee changes their role within your firm, their privileges are reviewed as well?
68. Are Client ID's internally abbreviated or coded for anonymity? (Y/N)
69. If so, please confirm how our firm's name appears in your systems?
70. Is any client information stored outside of the UK? (Y/N)
71. If yes, where?
72. Please detail the Data Privacy and Procedures you have in place to manage client information.
73. Is client order interest disseminated externally via indications of interest or incorporated in the bank/broker external pricing?
74. If yes, please explain this process.

## F. RISKS AND CONTROLS

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75. Please describe the control and review process the algorithm goes through before going live or after undergoing significant structural changes.
76. How are changes to the algo structure communicated to the client?
77. Please describe the team structure for electronic trading including roles and responsibilities.
78. Are orders validated on a firm, regional, desk or client trader level?
79. What standard hard reject checks do you carry out on client orders?
80. What standard soft hold checks<sup>1</sup> do you carry out on client orders?
81. If any standard soft hold checks are carried out on client orders, please list any soft hold checks you have applied to our order flow.
82. Do your risk controls comply with applicable regulation?
83. If yes, please specify which regulation.
84. Please describe the inbuilt controls that would protect the client from external negative events (flash crash, fat-fingers by 3rd parties etc.) and how these differ between strategies/material drivers (internal negative events covered in risk & controls)

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<sup>1</sup> Restrictions – such as size limits – which can be overridden.

# ANNEX – ABBREVIATIONS

<b>ABBREVIATION</b>	<b>EXPLANATION</b>
API	Application Programming Interface
FX	Foreign Exchange
IA	The Investment Association
MTF	Multi-Lateral Trading Facility
RM	Regulated Market
SI	Systematic Internaliser
SOR	Smart Order Router
TCA	Transaction Cost Analysis



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