



## FIA ALGORITHMIC TRADING DUE DILIGENCE GUIDE - TEMPLATE FOR FIRMS

The FIA has produced an **Algorithmic Trading Due Diligence Guide - Template for Firms**. The purpose behind the Due Diligence Guide is to assist firms in their determination as to whether they need additional information from their existing or prospective Clients engaged in algorithmic or automated trading. The Due Diligence Guide provides a list of standardised questions and language which firms, within any jurisdiction, can incorporate into their own annual due diligence discussions with Clients. The Due Diligence Guide consist of 8 sections (general organisational requirements, compliance, staffing testing, deployment, control, surveillance and monitoring) which are considered key to carrying out effective due diligence on Clients engaged in algorithmic or automated trading.

### Disclaimer

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	Question/Description		Comments
General Organisational Requirements	A.1	The Client confirms that they have in place an overall governance and decision making framework, and that it monitors its algorithmic trading systems through a formalised governance arrangement, for example: <ul style="list-style-type: none"> <li>(a) Lines of accountability;</li> <li>(b) Procedures for the communication of information within the Client; and</li> <li>(c) A separation of tasks and responsibilities between relevant trading desks and the Client's support functions (i.e. risk control and compliance).</li> </ul>	Yes/No
Compliance	B.1	The Client confirms that its compliance staff has general oversight and understanding of the Client's algorithmic trading activity.	Yes/No
	B.2	The Client confirms that its compliance staff has contact with persons with access to the Client's kill functionality and to those individuals who are responsible for all algorithmic trading systems.	Yes/No
	B.3	The Client confirms that those of its staff responsible for the risk and compliance functions relevant to its algorithmic trading activity have: <ul style="list-style-type: none"> <li>(a) Sufficient knowledge of the algorithmic trading activity to perform their functions;</li> <li>(b) Sufficient skills to follow up on information provided by automatic alerts; and</li> <li>(c) Sufficient authority to challenge staff responsible for algorithmic trading activity where such trading gives rise to disorderly trading conditions or suspicions of market abuse.</li> </ul>	Yes/No
Staffing	C.1	The Client confirms that it employs a sufficient number of staff with the necessary skills to manage its algorithmic trading systems.	Yes/No
	C.2	The Client further confirms that those staff have sufficient technical knowledge of the relevant trading systems, including monitoring and testing procedures.	Yes/No
Testing	D.1	The Client confirms that: <ul style="list-style-type: none"> <li>(a) It has established methodologies to test its algorithmic trading systems and</li> <li>(b) A person designated by the senior management of the Client will authorise the deployment or substantial update of any algorithmic trading systems or strategies that it intends to operate.</li> </ul>	Yes/No
	D.2	The Client confirms that its testing methodologies are designed to mitigate the risk of any algorithmic trading activity behaving in an unintended manner or contributing to disorderly trading conditions, and to help ensure that the relevant trading activity does not infringe the rules of any relevant market accessed.	Yes/No
Deployment	E.1	The Client confirms that prior to full deployment of an algorithmic trading system, it will set predefined limits on: (1) the number of financial instruments being traded; (2) the price, value and number of orders; (3) the strategy positions; and (4) the number of trading venues to which orders are sent.	Yes/No

	<b>E.2</b>	The Client confirms that any proposed material change to the production environment of the algorithmic trading system is preceded by a review of that change by a person designated by senior management of the Client.	Yes/No
	<b>E.3</b>	The Client confirms that it retains a record of any material change made to the algorithmic trading system.	Yes/No
<b>Control</b>	<b>F.1</b>	The Client confirms that it is able to cancel immediately, as an emergency measure, any or all of its unexecuted orders.	Yes/No
	<b>F.2</b>	The Client confirm that it uses pre-trade risk controls on all child orders generated from its algorithmic trading system, for example: <ul style="list-style-type: none"> <li>- Price Collars</li> <li>- Max Order Value</li> <li>- Max Order Volume</li> <li>- Max Message Limit</li> </ul> Please provide examples.	Yes/No
	<b>F.3</b>	Does the Client have a business continuity arrangement in place for its algorithmic trading system which is appropriate to the nature, scale and complexity of its business?	Yes/No
<b>Automated Surveillance</b>	<b>G.1</b>	The Client confirms that it uses an automated surveillance system, designed for the nature, scale and complexity of its algorithmic trading activity, to monitor its trades for suspicious trading activity, including potential market manipulation.	Yes/No
	<b>G.2</b>	The Client confirms that its surveillance systems are subject to an annual review, in order to assess whether the systems, parameters and filters are still adequate to the firms regulatory obligations and its trading behavior.	Yes/No
<b>Monitoring</b>	<b>H.1</b>	The Client confirms that it monitors in real-time all algorithmic trading activity that it performs.	Yes/No
	<b>H.2</b>	The Client confirms that real-time monitoring shall be undertaken by the trader in charge of the relevant algorithmic trading activity and by an independent risk control function.	Yes/No
	<b>H.3</b>	The Client confirms that its staff members who are in charge of real-time monitoring can respond to operational and regulatory issues in a timely manner and initiate remedial action where necessary.	Yes/No

<b>Platform(s)</b>  <b>Vendor-provided or self-built?</b>	
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