

Brief Write up on IT Control with respect to Algo and Non-Algo Orders

We with respect to IT controls regarding algorithmic (Algo) and non-algo orders primarily focus on ensuring proper identification and segregation of order types and implement robust systems to distinguish between Algo and non-algo orders, often using unique flags or tags within the order structure, and to monitor for potential risks associated with algorithmic trading activities; this includes pre-trade checks, post-trade surveillance, and strict guidelines for Algo development and deployment.

Key aspects of IT controls for Algo and non-algo orders:

Order identification:

Unique flags/tags: Each order placed through an algorithmic strategy should be clearly identified with a distinct flag or tag within the trading system to differentiate it from a manually placed (non- algo) order.

API-based orders: Orders originating through APIs are often considered as potential algo orders and may require additional scrutiny.

Algo registration and approval:

Pre-approval process: Register algorithms with the stock exchange and get approved before deploying them in the live market.

Algorithm testing: Thorough testing of algorithms to ensure their functionality and compliance with regulatory standards.

Monitoring and surveillance:

Real-time monitoring: Continuously monitor algo orders for unusual trading patterns, excessive order volume, or potential market manipulation.

Post-trade analysis: Detailed analysis of executed algo orders to identify potential issues or deviations from expected behavior.

Access control and segregation:

User access control: Strict controls on who can access and modify algo trading parameters, including user authentication and authorization mechanisms.

Dedicated systems: Separation of algo trading systems from other trading platforms to minimize potential conflicts or unintended interactions.

Risk management:

Order limits and thresholds: Setting maximum order size and frequency limits for algo orders to mitigate potential market impact.

Stop-loss mechanisms: Implementing automated stop-loss orders to limit potential losses in case of unexpected market movements.

Important considerations:

Technology infrastructure: Reliable and robust trading platforms for smooth execution of algo orders.

Data quality: Accurate and timely market data is essential for effective algo execution.

Compliance with regulations: Staying updated on the latest SEBI regulations regarding algorithmic trading is vital for market participants.