Algo Due Diligence Template

GENERAL	
This general section outlines the core features of the algorithm. Providers may consolidate answers 1–5 into a table or grid if they wish to cover multiple algorithms with the same template.	
Q1	Algo Provider (also referred to as "you" or "your" below as required):
A1	
Q2	Algo name(s):
A2	
Q3	Liquidity type (internal, external, hybrid):
A3	
Q4	Products covered (spot, NDF):
A4	
Q5	Description[1] of algo(s):
A5	
Q6	Please describe any parameters or controls the user may adjust:
A6	
Q7	Please specify if the product is built internally or externally:
A7	
CONFLICTS OF INTEREST	
Some conflicts of interest may be expected but it is important to know what they are and what steps have been taken to manage them. This way the Algo User can make an informed decision.	
Q8	If principal liquidity interacts with the Algo User's order, how does this happen and what steps are taken to ensure the fill is a fair one from the order's point of view?
A8	
Q9	If another part of your business needs to hedge or trade in the same direction as the Algo User's order, how are fills allocated between the two?
A9	
Q10	Are there any particular commercial interests in trading venues or other relevant service providers that interact with the algorithm provided by you? If so, how are such conflicts addressed?
A10	
Q11	Please elaborate on your role as regards market risk, counterparty risk, and settlement risk.
A11	
Q12	Is there anything else of which you feel the Algo User should be aware?
A12	

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[1] You may find it helpful to refer to the 'algo archetypes' delineated in section 2.1 of FX execution algorithms and market functioning

ALLOCATION POLICY

There are many different approaches to allocations. It is important to understand what happens in circumstances where multiple clients wish to trade or, indeed, when one order would be used to fill the order of another client.

Q13	If you have more than one client order wishing to trade in the same pair and on the same side, how are fills allocated amongst these orders?
A13	
Q14	If two client orders are eligible for execution netting, how does this process work?
A14	

ROUTING POLICY

Routing policy is an important topic. There are several components such as how execution venues are evaluated, curated, and prioritised. Also covered is the question of what fair-value mid the algo uses to make routing decisions and how information leakage is avoided when placing lit orders. Finally, internalisation is defined: some providers have a strict definition such as 'two algo orders netting' whereas others will include midbooks and trades where they have shown a skew through mid externally to incentivise another counterparty to fill them.

Q15	How are hedging execution venues evaluated, including both observable (spread, impact) and implicit costs (information leakage)?
A15	
Q16	How do you prioritise between different execution venues (both external and internal sources) when routing orders?
A16	
Q17	If multiple clients enter orders in the same pair, will you aggregate these orders before placing orders externally or treat each client order individually and place multiple similar orders, which may compete with one another for fills?
A17	
Q18	What – if any – ongoing work do you do in order to curate execution venues, where curation is possible? Approximately how often is this conducted?
A18	
Q19	Do you have any logic to avoid orders on venues where the order book is visible to all participants (lit execution venues) causing information leakage? If so, please describe it.
A19	
Q20	Does the mid/fair-value used by the algorithm differ from the one used by your own market making system for pricing and risk management? If yes, please specify.
A20	
Q21	Please define your understanding of 'internalisation' and, using an example, describe how this works in practice, demonstrating if/how your Algo Clients benefit from this process. If you wish to do so you may provide an indication of how much volume is internalised on average.
A21	

SEGREGATION POLICY

Segregation policy is all about keeping order information private and reducing the risk of signalling.

Q22	Please describe if and how the algo orders are segregated within your institution.
A22	

Q23	Can sales and trading personnel who provide intraday 'market colour' view algo orders at any stage? If so, what steps have been taken to minimise the risk of information leakage?
A23	
Q24	Can discretionary traders who may enter or exit risk for your institution view algo orders at any stage? If so, what steps have been taken to minimise the risk of information leakage?
A24	
Q25	Can an electronic market making system view algo orders at any stage? If so, what steps have been taken to minimise the risk of information leakage or misuse of information?
A25	
Q26	Are algo order flows included in any market positioning tools or analyses that other clients may use?
A26	

SAFETY FEATURES

Safety features might include fat-finger limits, kill switches or protections that automatically suspend the order when it trades too fast or in certain market conditions.

Q27	Please describe any in-built safety features you have that may cause an order to be suspended or rejected.
A27	
Q28	Please explain what you have done, and will continue to do, to ensure the integrity of the electronic trading system you provide for clients to use (including the system's reliability, security, capacity and contingency measures).
A28	

TCA

TCA is an increasingly important part of the service. Where the TCA is not third party it is important to understand internal metrics. For example, if you have 'beaten risk transfer price' by 3bp how is that risk transfer price calculated?

Q29	Do you support any TCA or analytics? If so, please specify which providers.
A29	
Q30	If you provide proprietary analytics, please describe how relevant metrics are calculated (mid-price, risk-transfer benchmarks, etc.).
A30	
Q31	If you provide proprietary analytics, is there a difference in data provided to different users? If so, please elaborate.
A31	

SWAPS

Algo Users may have a need to roll an algo execution entirely/partially to one or more forward value date/s. If roll forwards are executed with the Algo Provider, it is crucial to understand if the respective swap prices are competitive and whether potentially sensitive order information is exposed. For example, does the swaps trader know which side of the quote the algo execution is on or do they receive a two-sided RFQ? Also, does the swap trader know they are quoting a captive spot fill or does it appear the same as RFQs that are priced in competition with other banks?

Q32	What information is provided to the STIRT desk when there is a request for swap pricing from an algo order?
A32	