

Commission Delegated Regulation (EU) 2017/589 of 19 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the organisational requirements of investment firms engaged in algorithmic trading (Text with EEA relevance)

CHAPTER II

**RESILIENCE OF TRADING SYSTEMS**

*SECTION 2*

***Post-deployment management***

*Article 9*

**Annual self-assessment and validation (Article 17(1) of Directive 2014/65/EU)**

- 1 An investment firm shall annually perform a self-assessment and validation process and on the basis of that process issue a validation report. In the course of that process the investment firm shall review, evaluate and validate the following:
- a its algorithmic trading systems, trading algorithms and algorithmic trading strategies;
  - b its governance, accountability and approval framework;
  - c its business continuity arrangement;
  - d its overall compliance with Article 17 of Directive 2014/65/EU, having regard to the nature, scale and complexity of its business.

The self-assessment shall also include at least an analysis of compliance with the criteria set out in Annex I to this Regulation.

2 The risk management function of the investment firm referred to in Article 23(2) of Commission Delegated Regulation (EU) 2017/565<sup>(1)</sup>, shall draw up the validation report and, for that purpose, involve staff with the necessary technical knowledge. The risk management function shall inform the compliance function of any deficiencies identified in the validation report.

3 The validation report shall be audited by the firm's internal audit function, where such function exists, and be subject to approval by the investment firm's senior management.

4 An investment firm shall remedy any deficiencies identified in the validation report.

5 Where an investment firm has not established a risk management function referred to in Article 23(2) of Delegated Regulation (EU) 2017/565, the requirements set out in relation to the risk management function in this Regulation shall apply to any other function established by the investment firm in accordance with Article 23(2) of Delegated Regulation (EU) 2017/565.

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**Changes to legislation:** Commission Delegated Regulation (EU) 2017/589, SECTION 2 is up to date with all changes known to be in force on or before 22 July 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details) EUR 2017 No. 589 may be subject to amendment by EU Exit Instruments made by both the Prudential Regulation Authority and the Financial Conduct Authority under powers set out in The Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018 (S.I. 2018/1115), regs. 2, 3, Sch. Pt. 4. These amendments are not currently available on legislation.gov.uk. Details of relevant amending instruments can be found on their website/s. (See end of Document for details) View outstanding changes

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*Article 10*

**Stress testing(Article 17(1) of Directive 2014/65/EU)**

As part of its annual self-assessment referred to in Article 9, an investment firm shall test that its algorithmic trading systems and the procedures and controls referred to in Articles 12 to 18 can withstand increased order flows or market stresses. The investment firm shall design such tests, having regard to the nature of its trading activity and its trading systems. The investment firm shall ensure that the tests are carried out in such a way that they do not affect the production environment. Those tests shall comprise:

- (a) running high messaging volume tests using the highest number of messages received and sent by the investment firm during the previous six months, multiplied by two;
- (b) running high trade volume tests, using the highest volume of trading reached by the investment firm during the previous six months, multiplied by two.

*Article 11*

**Management of material changes(Article 17(1) of Directive 2014/65/EU)**

1 An investment firm shall ensure that any proposed material change to the production environment related to algorithmic trading is preceded by a review of that change by a person designated by senior management of the investment firm. The depth of the review shall be proportionate to the magnitude of the proposed change.

2 An investment firm shall establish procedures to ensure that any change to the functionality of its systems is communicated to traders in charge of the trading algorithm and to the compliance function and the risk management function.

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**Changes and effects yet to be applied to :**

- Regulation revoked by [2023 c. 29 Sch. 1 Pt. 3](#)