

### Beware! One market order can hide another: what are the rules on the priority of execution of orders?

Some investors believe that as soon as their order is sent to the market, it will be executed immediately and in full. However, other than the terms governing the security's liquidity, priority rules apply when executing orders. Here, I shall shed light on this process based on a mediation case.

#### The facts

On 15 January 2014, early in the afternoon, Mr L issued an limit order<sup>1</sup> at €2.50 to purchase 35 shares of X listed on the Euronext Paris, the only market where security X is listed.

Mr L monitored the order book<sup>2</sup> closely via an online stock market platform. He saw that his was the only buy order facing a sales order for 200 shares at €2.50 before a second buy order for 100 shares at €2.50 was added.



Given that the quantity for sale (200) was higher than that for purchase (135 shares in total) Mr L was sure that his order to purchase 35 shares of X would be executed. However, after first being surprised that the quotation for security X took place at 3.30 p.m., Mr L realised that his purchase order had only partially been executed for just 20 shares.

Not understanding the reason why and believing himself to be the victim of a problem in executing the order, he asked me to intervene.

#### The analysis

I noticed first of all when I checked the Euronext website, that security X was not traded continuously,<sup>3</sup> but at a fixing period<sup>4</sup> at 3.30 p.m., which explains why Mr L spotted that the share quotation on took place at that time.

Furthermore, after further examination, the fact that his order had only been partially executed did not appear to be abnormal. In fact, pursuant to the Euronext market rules<sup>5</sup>, a limit order can be executed fractionally or partially whenever there are not sufficient counterparties at a price compatible with his limit. However, on this point Mr L confirmed that according to the order book, there was no counterparty problem.

#### Order book before the 3.30 p.m. fixing period

Buy		Sell	
Quantity	Price	Price	Quantity
35	2.50	2.50	200
100	2.50		

<sup>1</sup> An order which includes a maximum buy price, a minimum sales price, and can only be executed at the price limit set or at a better price – see Article 2.1.2 of the Euronext Instruction No. 4-01–Trading manual

<sup>2</sup> Specific to each security listed, the order book lists all the pending purchase and sales orders.

<sup>3</sup> Throughout the trading session an incoming order immediately produces a new quotation whenever there is one or more orders in the opposite direction provided the execution price is compatible with that of the new order.

<sup>4</sup> Unlike continuous trading, a fixing quotation is a trade which produces a price once or twice a day at a set time. After an order collection phase all registered orders are matched and then the fixing price is determined, allowing most of the shares to be traded.

<sup>5</sup> Article 2.1.2 of Euronext instruction no. 4-01– Trading manual

The only thing left to do was to check the implementation of the priority rules in executing the order. In fact, it's important to know that simply issuing an order to the market, and its subsequent registration, does not necessarily imply that it will be executed, even in cases where the price limit set is reached. The order is executed after applying two priority rules<sup>6</sup>:

- first by price: a sell/buy order with higher/lower limits is processed before all orders at lower/higher limits, **the market order<sup>7</sup> has priority over market-to-limit orders<sup>8</sup> and limit orders**;
- and then by time: two orders in the same direction and at the same price are executed by order of arrival.

In this case, after examination, it seems that a market buy order for 180 securities X – therefore with priority over the limit order of Mr L – was processed at 3:29:18 p.m. and used up a large quantity of the securities available for sale (180 out of 200). However, Mr L could not see this order in real time since the site on which he was monitoring the order book displayed it with a 15-minute delay, a detail that was indeed specified on the site in question.

#### Order book after incoming market order at 3.29'18" p.m.

Buy		Sell	
Quantity	Price	Price	Quantity
180	on the market	2.50	200
35	2.50		
100	2.50		

### The recommendation

With regard to the priority order on the market and the quantity available for sale (200 shares), it appears that there was nothing abnormal in the fact that Mr L's order was partially executed (20 shares) after the market order had been processed up to the limit of the requested quantity (180 shares).

### The lesson to be learned

Be careful what type of order you choose! In fact, depending on the order you choose, you can favour speed of execution, quantity or price. For example, a limit order controls the execution price but may be either partially or not at all executed, which was effectively the case for the buy order of 100 X shares registered in the order book after that of Mr L. However, a market order, which has priority over all types of orders, guarantees the quantity, but not the execution price.

Furthermore, to find out if the stock that you would like to buy or sell is on continuous trading or fixing – which is not always explicitly stated on the stock market sites – you can look at its data sheet and its characteristics of the Euronext website ([www.euronext.com](http://www.euronext.com)) that manages the allocation of these securities to one of these quotation methods depending on their liquidity (number of transactions measured on an annual basis).

Finally, remember to check if the free-of-charge platforms that you use to check the orders disseminate the information in real time or with a time delay.

### Read more

[The AMF Ombudsman](#)

<sup>6</sup> Article 4401/1 of Book 1 of the Euronext market rules

<sup>7</sup> Market order without any price condition – see Article 2.1.1. of the Euronext Instruction No. 4-01– Trading Manual

<sup>8</sup> Market order without indication and executed at the best bid price pending if it is a purchase order or at the best ask price pending if it is a sell order – see Article 2.1.1. of the Euronext Instruction No. 4-01– Trading Manual