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Stock market orders: when the validity period of an order has an impact on the likelihood of its execution

As I have already pointed out, investors should pay close attention to the type of order that they are choosing, whether "market orders", "limit orders" or "best limit orders". However, in addition to the method they choose, they should also pay attention to its period of validity, which may have an impact on the likelihood of the order being executed, as shown in the case I am presenting this month.

The facts

Mr. C., a client of financial institution X and holder of an ordinary securities account, informed me that on the evening of 28 September 2020, he decided to sell his shares in A, listed on Euronext Paris, and therefore placed a sell order at a limit price of €6.50 via his personal account.

However, his sell order was rejected because it "exceeded the threshold". Mr. C. did not understand the reason for this and asked his financial intermediary for an explanation. In response to his query, he was informed that in accordance with the terms and conditions, orders are routed to the execution venue except in certain circumstances, and in particular, in the client's interest, orders above a set threshold are filtered.

However, considering that his sale had been unduly blocked and having been forced to sell his shares at a less advantageous price (€5.98), Mr. C. asked me to intervene in order to

obtain compensation for the price difference noted.

Investigation

I contacted the financial institution X and asked it to share its observations with me, in particular on the reasons that had led it to consider that refusing the sell order was in Mr. C.'s interest, and to provide me with more information about the threshold mentioned in its terms and conditions.

X responded to my query by sending the following information:

1 • About the information provided

The company first stated that on 28 September 2020 at 9:40 pm, Mr. C. used the mobile application to place a limit order for his A shares with a limit price of €6.50. The sale order was indeed rejected for the following reason: "Transaction prohibited, maximum threshold exceeded".

On this point, the bank explained to me that, as stated in its terms and conditions, "The circumstances that justify the manual processing of orders or their rejection are as follows (...) - in the client's interest, filtering of orders above a set threshold".

It also explained that the amount of stock market orders that can be entered directly via the mobile application is capped at a set amount in order to protect clients against possible mistakes in entering their stock market orders. Therefore, when this threshold is reached, the stock market order has to be processed manually and clients must therefore contact the telephone platform dedicated to stock market orders, which is available only during the trading hours of the Paris Stock Exchange, i.e. from Monday to Friday from 9am to 5.30pm.

However, the financial institution admitted that in this case, on the day he placed his order, Mr. C. had not been informed of the alternative practical arrangements enabling him to have his order executed manually.

2. On the compensation claimed

Bank X told me that, given the stock market prices on 29 September 2020, the limit of €6.50 could have effectively been reached on the day of execution. Having acknowledged, however, that Mr. C. had suffered from a lack of information regarding the alternative practical arrangements for transmitting his order, the bank thus admitted that Mr C. had been

obliged to place his order, via the mobile application, by lowering the limit set from €6.50 to €5.98 for the order to be executed.

The bank in question was therefore in favour of compensation, while stressing that it would not be in full since, in particular, there was no way of knowing for certain that, at the time the €6.50 limit was reached, the order could have been well and truly executed in full and that, depending on the order book, Mr. C.'s order might have been partially executed.

After receiving this answer and after a thorough analysis of the elements of M.C.'s case, I returned to Bank X to discuss the amount of compensation to be proposed.

Recommendation

I told the Bank that I agreed with its analysis that the issue in this case was to compensate for the loss of opportunity, bearing in mind that compensation cannot, in law, correspond to the entire expected benefit but must be measured against the (more or less strong) probability that Mr. C.'s order would have been executed in full.

I pointed out that in this case it was correct that, given the lack of information on volumes traded at or above €6.50, Mr. C.'s order might not have been executed in full on 29 September. However, I pointed out to Bank X that I had noted that Mr. C had placed a good-till-cancelled order, which was therefore valid for 365 days.

Validity of orders

An order may be a "Day Order", which will therefore be valid only for the trading day on which it is placed. Investors may also choose to keep their order valid until a "specified date" and therefore be liable to be executed, in full or in part depending on the type of order chosen[1], from the day it is entered until that date. An order duration may also be "good till cancelled", as was the case in this instance. This means that it is valid for 365 days, unless executed (if market conditions permit) or cancelled.

Important note: Unless specifically mentioned in the account agreement, by default, i.e. in the absence of any particular instructions from the investor, the stock market order shall have a "day" validity.[2]

However, looking at the trading history of the A share that I had consulted, it appeared that the share price had always exceeded, with a few exceptions, the limit set in the weeks that followed. Thus in the event of a fractional execution where the volumes had not allowed full

execution on 29 September, any remaining balance would have most likely been executed later on, without difficulty at the limit set or even at a higher price.

Consequently, in view of the (very high) probability of the execution of this order, I advised bank X that compensation of around 90% of the price difference seemed appropriate to me in this case.

Bank X replied that it agreed to follow my recommendation and agreed to a commercial gesture equal to 90% of the loss, which the applicant accepted.

Lessons to be learned

There are two lessons to be learned in this case:

- professionals should not fail to inform their clients of the particular conditions or specific constraints that may limit their choice and, above all, of the practical alternatives available in such cases. A lack of information or incomplete information can be a source of frustrating disputes that could easily be avoided, in particular via a clear, complete and comprehensible statement in the terms and conditions or by the introduction of warning windows when orders are placed.

- investors must be aware of the type of order chosen and its period of validity. The duration of the order obviously has an impact on the likelihood of its execution, which I have to analyse in this type of case, where the aim is to compensate for a loss of opportunity.[3]

I would add that investors should also bear in mind that in the event of unexplained blockages or computer malfunctions affecting the placing of their orders, they usually have alternative options, such as placing orders by telephone. Investors should therefore think of using these options, which may make it possible, in certain cases, to avoid a dispute or, at least, to limit their damage.

[1] The "market order" can only be executed in full, whereas a "limit" order can be executed partially and/or in several transactions.

[2] Article 4204/1 of Book I of the Euronext Rule Book: "Orders entered into the Central Order Book may be valid for the Trading Day, until a specified date, or until cancelled, subject to a maximum duration of 365 days. Failing specification of its duration, an order shall be deemed to be valid for the Trading Day. "

[3] For more on this subject, see also: Case of the month - October 2015: Poor execution of a stock exchange order: when the actual harm to the complainant is not what he considers...

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