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Stock market orders: when a trading curb holds some surprises...

While a suspension of trading is usually decided when a major event occurs that would be liable to have a significant impact on the price of the share concerned, there is a different mechanism, inherent to the functioning of financial markets, called a "curb".

The trading curb is the result of the temporary impossibility of adjusting supply and demand within authorised price zones, particularly in the event of very high volatility. When it comes to curbing a security, the type of order chosen by the investor can have serious consequences, as shown in the case I'm presenting to you this month.

The facts

Mr F. placed a market sell order for 600 S shares, the price of which he had consulted on Euronext Paris. According to Mr F., the price at the time was €15.60. However, his 600 shares were sold at €14.44. Surprised at the price at which his shares had been sold, he contacted his financial intermediary.

In response to his complaint, institution X then informed him that his order had been transmitted on an alternative trading venue, Equiduct, where the price was €14.44 per share.



Mr F then contested the choice of the alternative trading venue as the place of execution of his order. He considered that institution X had not taken all reasonable steps during the execution of his order to obtain the best possible result, as part of its "best execution" obligations, thereby causing him to incur a loss. He asked for compensation for this loss.

Mr F. then referred the matter to me.

The investigation

I questioned institution X which informed me of its observations on this case, along with supporting documentation.

Institution X confirmed that it had received Mr F's sell order for 600 S shares, which it immediately transmitted to the Equiduct trading venue.

However, Equiduct rejected it on the grounds that there was a trading curb on the share at the time. As a result, the broker automatically sent the order to the reference market, Euronext Paris, since, conversely, the trading curb did not prevent the transmission of an order on this market.

Remember that the trading curb is imposed when it is temporarily impossible to adjust supply and demand within authorised price zones. The market undertaking, Euronext Paris, then temporarily suspends the trading of a security - upwards or downwards - when a buy or sell order, if executed, would result in trading at a price (or prices) outside these limits, known as "suspension thresholds". Each day, before the markets open, Euronext calculates a trading range for each stock that it considers normal and determines two thresholds: a minimum (downward threshold) and a maximum (upward threshold) below and above which the stock is curbed. Suspension thresholds are established by applying a maximum fluctuation percentage to a "reference price".

This institution added that the price of €15.60, which Mr F. mentioned in his complaint, corresponded to the last price of the S shares before the security was suspended on Euronext Paris. Trading resumed some 20 minutes later at a price of €14.44, which corresponded to the price and time of execution of Mr F's order.

As a result, institution X told me that Mr F.'s order had ultimately been executed on Euronext Paris at the price of €14.44 and that it therefore considered that it had fulfilled its best execution obligation.

Recommendation



After receiving these answers, I conducted a careful analysis of the case.

First of all, with regard to the execution venue chosen by institution X to execute Mr F's order: after consulting institution X's best execution policy, I observed that the Equiduct platform, on which the order was initially transmitted, was one of the execution venues proposed by institution X, as it is entitled to do^[1]. In this regard, I reminded Mr F. that paragraph 3 of Article L. 533-18 III of the Monetary and Financial Code states that the client's express consent to the place of execution of the order is required when the order is executed outside a regulated market or a multilateral trading facility (MTF)^[2]. However, since the Equiduct platform on which the order was initially transmitted is an MTF, Mr F's consent to the place of execution was not required.

Furthermore, I confirmed to Mr F. that the S share had indeed been the subject of a trading curb - upwards - over the period under review, following an announcement by the issuer, which caused the share to rise sharply.

In this case, due to the triggering of this mechanism, Mr F.'s sell order which had been initially transmitted on this alternative platform, Equiduct, was rejected by it. Consequently, his order was transferred to Euronext, since on this market, during the suspension period, orders can continue to be registered, modified or cancelled, without of course being able to be executed until trading resumes. Mr F's sell order was therefore recorded in the Euronext Paris central order book, pending the reopening of trading, for execution.

However, as this was a market order, characterised by the absence of a price limit, it was executed at the reopening at 1.23 pm at the recovery price, i.e. €14.44. On this point, I pointed out to Mr F. that his account keeper could not be held responsible for the fact that he had chosen to transmit an order without indicating a limit

In the light of these elements, I told Mr F. that I had not found anything that would allow me to consider the execution of his order as abnormal and that I could not therefore issue a favourable opinion on his request.

Lessons to be learned

Investors should be more vigilant about the type of order they choose because of the "curbed" status of a security when placing a stock market order. It is often the case that when trading resumes, the reopening price is either much higher or much lower than the last known price before the suspension. This means that when investors transmit an order without a price limit, they run the risk of seeing their order executed at a price that is very far removed from the price observed before the curb. Therefore, in such a case, I can only




urge investors to be cautious themselves and to favour terms that allow them to control the execution price and thus avoid the risk of disappointment.

Furthermore, with regard to the place of execution, as I mentioned in a previous issue, investment services providers are required to develop an order execution policy that enables investors to benefit from the best conditions when their orders are executed. As part of its "best execution" obligations, an investment services provider is entitled to propose an execution venue different from the reference market in order to obtain the best possible result when executing its clients' orders. Investors should therefore consult the provider's execution policy, the details of which are set out in the general terms and conditions, which contains all the possible execution venues chosen by the provider. As the case in point illustrates, the consequences of a trading curb will depend on the execution venue: whereas on Equiduct, the order is rejected, on Euronext, the order can be registered, modified or even cancelled as long as trading has not resumed.

[1] On this issue, see the December 2016 issue: "Best execution" of orders or the primacy of the total cost paid by the client.

[2] Without having regulated market status, an MTF matches, internally and according to defined rules, orders (buy and sell) on financial instruments. The main ones are Chi-X, Equiduct, Turquoise, BATS.

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