TRADER ORDER PRESERVATION IN TRADING SYSTEM

TECHNICAL FIELD

The present application relates to a method and a trading system for trading financial instruments and more specifically a method and a trading system comprising a trader order preservation functionality.

BACKGROUND ART

In the financial market it is known to have anonymous as well as non-anonymous trading systems for trading in financial instruments.

The term "financial instrument" is in the present application used in a broad sense and encompasses any tradable item (stocks, bonds, securities, cash, foreign exchange, options, gas, electricity, etc.) or group of items that is traded through matching of counterparty orders (bid, offer). An order normally includes a price and a volume of the item(s) or combination of items. The price and the volume can be viewed as order conditions that have to be met in order for a match (deal) to take place.

Although one main purpose of an anonymous trading system is to establish a fair and equal marketplace where no user or party knows the origin of any specific order (bid or offer) on the system, there is sometimes a problem for parties who do not wish to trade with specific counterparties. The most common reason for not trusting other parties is creditability, but there may be other reasons as well.

In non-anonymous systems similar situations may arise (engagement in trades with unwanted counter-parties) if the system is based on automatic matching of orders.

For any trading system that allows at least one of the parties to decline or reject a trade after a match has found by the trading system, there is a problem in that the orders must be reinserted by the parties, thereby losing their priority in the trading system's order book.

DISCLOSURE OF THE INVENTION

It is an object of the present invention to overcome at least some of the problems indicated above with prior art systems.

One such trading system is achieved with a trading system comprising a decision unit connected to the order book for determining when matched orders are to be removed based on confirmation of acceptance of the trade received from a user terminal.

Hereby, no alterations are done in the order book until the trade is actually confirmed by the parties. If any party rejects the trade, no change occurs in the order book, thus preserving the status it had when the match was made.

Similarly, a method performing the steps of holding removal of orders from the order book until definite acceptance of the trade has been received is disclosed.

Another such trading system is achieved with a trading system comprising a reinsertion unit connected to the order book for reinserting orders removed from the order book back into the order book with the same priority they had before being removed following a match when the trade is refused based on confirmation of reject of the trade received from a user terminal.

Hereby, the order book is essentially re-constructed to its previous condition whenever a match results in a reject of trade from any of the parties.

Similarly, a method for re-inserting removed orders with retained priority is disclosed.

BRIEF DESCRIPTION OF THE DRAWINGS

The invention will be described in more detail with reference to the appended drawings in which:

Fig 1 shows a first embodiment of a financial market system which will be used to describe the invention,
Fig 2, shows a flow chart describing one embodiment of the inventive method, and
Fig. 3, shows a flow chart describing an alternative embodiment of the inventive method.

EMBODIMENTS

Fig 1 shows an embodiment of a financial market system 101. The financial market system 101 is used for trading in financial instruments. In this particular case, the financial market system is an anonymous market place, i.e. no-one is supposed to know the identity of the user behind a certain order. However, the same functionalities and effects can be achieved with a non-anonymous financial market system.

The financial market system 101 essentially comprises three subsystems, each fulfilling certain main functions. In this case, the first subsystem is represented by terminals 102. A terminal 102 is used by the users or traders on the financial market system 101 to receive information about the market via a display 103 and to add information (mainly putting in orders) to the market via a input board 104.

Naturally, display 103 should be regarded in broad sense as any means for presenting information, although preferably a means for visually presenting the information, and the input board 104 should be regarded in broad sense as any means for inputting information, although preferably a means for physically pressing a key (proper keyboard, mouse, etc). The display 103 and input board 104 could also be formed as a common device, such as an interactive screen.

The terminals 102 communicate with a trading system 105, in which the main market events take place. The market system 105 in this embodiment comprises a number of functional units, namely a matching unit 106 for matching orders sent in by the users, an order book 107 for storing unmatched orders, a decision unit 108 for determining if a match should result in the removal of corresponding orders from the order book 107, a user book 109 for identifying allowable users as well as awarding unique alias for the users and an information dissemination unit 110 for inter alia distributing (broadcasting) information from the trading system 105 to the terminals 102.

The figure only displays a symbolic rendering of some of the functions that are preferably implemented in the trading system 105 (by hard ware and/or soft ware) and not an actual hard ware or soft ware architecture. From a hard ware point of view, the trading system 105 may be set up in several different ways, using a number of servers and other well known components. Communications can be made through Ethernet, Internet, wire less, fibre optics, etc.

Finally, there is a settlement system 111 for finalizing (settling) all matched orders.

As an alternative embodiment the decision unit 108 could be replaced by a reinsertion unit for achieving the same result in a different way, which will be made clear in conjunction with the functional description for Figs. 2 and 3.

Fig. 2 hereby shows a flow chart for describing the purpose and effects of the decision unit 108 in Fig. 1.

Upon finding a match, the decision unit will first determine whether there is a trade refusal requirement in relation to any of the orders. (In case all orders contain a trade refusal requirement this step is not necessary.) If there is no such requirement, the trade will take place and is proceeded with (removal of orders from order book and sending trade to the settlement system).

Should there be a trade refusal requirement implemented in one of the orders, the decision unit sends out information of the match to the parties, allowing one or more of them to respond (preferably within a set time limit) by accepting the trade or refusing it. If the trade is accepted, the procedure is continued as with a normal trade (removal of orders from order book and sending trade to settlement system).

It the trade is rejected one of two things happen. If the system allows crossing orders in the order book, all orders are retained in the order book (and set to be unmatchable by the decision unit). If the system does not allow crossing orders, the order having highest priority is retained and the order with the lowest priority is removed with return information to the party sending in the order that the order was removed because trade was rejected.

In Fig. 3 a flow chart is shown indicating the procedure when using a reinsertion unit instead of a decision unit in the system in Fig. 1.

As soon as a match is found, the orders are removed from the order book. If a trade reject procedure is not possible, the trade proceeds as normal (settlement).

If trade rejection is possible, information is send out to the relevant parties (preferably with a time limit for responding).

Should there not be any trade refusal, the trade is proceeded as normal, but if there is a trade refusal, one of two actions is taken by the reinsertion unit.

If the system allows crossing orders, both orders are put into the order book with the same priority they had when they were removed. At the same time the orders are noted as being unmatchable.

If the system does not allow for crossing orders, the reinsertion unit selects the order having the highest priority and returns this to the order book (with that priority) and removes the other order (preferably sending info the party that sent in the order).

WE CLAIM

1. Trading system for trading financial instruments, comprising a matching unit for matching received orders having corresponding requirements and an order book for storing unmatched orders, wherein the trading system further comprises a decision unit connected to the order book for determining when matched orders are to be removed based on confirmation of acceptance of the trade received from a user terminal.

2. Trading system according to claim 1, wherein only matched orders comprising a trade reject counterpart prerequisite are considered by the decision unit.

3. Method for maintaining an order book in a trading system, comprising the steps of,

upon a match between two or more orders in an order book of the trading system it is checked whether the trade can be rejected by any party or not,

if trade rejection is possible, information of the match is send to the parties,

if the trade is rejected, at least one of the orders is retained in the order book.

4. Trading system for trading financial instruments, comprising a matching unit for matching received orders having corresponding requirements and an order book for storing unmatched orders, wherein the trading system further comprises a reinsertion unit connected to the order book for reinserting orders removed from the order book back into the order book with the same priority as they had before removal upon a match when the trade is refused based on confirmation of reject of the trade received from a user terminal.

5. Method for maintaining an order book in a trading system, comprising the steps of,

upon a match between two or more orders in an order book of the trading system the orders are removed from the order book and it is checked whether the trade can be rejected by any party or not,

if trade rejection is possible, information of the match is send to the parties,

if the trade is rejected, at least one of the orders is reinserted into the order book.