Electronic Trading Glossary
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Algorithms — A series of specific steps used to complete a task. Many firms use them to execute trades with computers.

Algorithmic Trading —The practice of placing orders in the market with the assistance of computers that are programmed with instructions identifying when to place an order, how to execute an order, and when to cancel and replace a resting order that has become obsolete. Often used interchangeably with the term "automated trading." Two types of algorithmic trading can be distinguished. One type—often called an "execution algorithm"—is used to execute trades more efficiently. For example, the market impact of a large order can be minimized by breaking it up into smaller orders that are submitted to the market at different times. The other type of algorithm—often called an often called an "alpha generation algorithm"—is used for automating both the identification of trading opportunities and the execution of orders.

Automated Trading — When computers are used to run trading algorithms to buy and sell financial instruments and other types of securities and derivatives. This contrasts with older practices of manually placing orders via telephone, on a trading floor or via "point and click" order entry.

Circuit Breakers — A market safeguard implemented by trading venues to halt or pause trading if a severe price move reaches predetermined levels. Circuit breakers may halt trading temporarily or under some circumstances close trading before the normal end of a trading session with respect to a single instrument or across an entire market.

Clearinghouse — A financial institution that provides clearing, trade matching, and settlement services for transactions involving derivatives and securities. The clearinghouse becomes the central counterparty to each market participant, that is, the seller to every buyer and the buyer to every seller. In the event of a default by a party to a cleared trade, the clearinghouse covers that party's obligations, insulating other clearing members and their customers from losses. By appropriately managing risk at the clearinghouse level and by employing proper financial safeguards, a clearinghouse has the potential to greatly reduce the counterparty risk faced by market participants.

Co-location — The placement of computer equipment by trading firms and other market participants in close physical proximity to the order matching computers of exchanges or other trading venues. This development has allowed all market participants to minimize the delays caused by distance in receiving market data and submitting orders.

Exchange — A public trading platform where buyers and sellers of financial instruments, such as stocks, options, and futures contracts, trade with each other.

High Frequency Trading — A class of automated trading in which computers are programmed to automatically generate, submit and adjust buy and sell orders continuously throughout the trading day. High frequency trading is used by a wide variety of professional traders, including investment funds and investment banks, traditional market making firms and proprietary trading firms.

Implied Price Functionality — A type of pricing algorithm that is embedded in some matching engines. It enables live bids and offers to be shown in one order book by using data from two other related order books. For example, two outright orders can be combined to create an implied spread order, or an outright order can be combined with an outright spread to create an implied order for the second leg of the spread.

Latency — The amount of time it takes to receive market data from or transmit orders to a trading venue. In today's electronic markets, latency is measured in milliseconds or microseconds.

Liquidity — The ability of buyers and sellers to trade in a market quickly and without large price impacts. Greater liquidity makes markets more efficient and less costly. Liquidity is typically measured in terms of bid-ask spreads, quoted size, and other price impact measures.

Market Maker — A class of professional traders who perform the function of posting continuous bids and offers to the market. Market makers can be formally designated as such by the rules of a trading venue or they can perform the market making function informally without designation.

Price Banding — A market safeguard used by exchanges to prevent the entry of buy or sell orders outside a range around current or recent price levels. The purpose is to maintain orderly markets during periods of high volatility and prevent clearly erroneous orders from entering the market and causing price distortions. Also known as limit up/limit down in the futures markets.

Proprietary Trading Firm — Generally, trading firms that trade with their own capital and not capital provided by third party investors. Firms that trade their own capital in exchange-traded markets are also often referred to as principal or professional traders. The term has become muddled with the advent of the Volcker rule, which places restrictions on in-house "proprietary" trading by financial institutions such as banks.

Sponsored Access — An arrangement between a market member and another trading firm to "sponsor" that trading firm's access to the market, allowing the sponsored firm to transmit orders directly to a market.