

13.2 Marketplaces

13.2.1 Liquidnet Canada – Notice of Proposed Changes and Request for Comment

LIQUIDNET CANADA

NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT

Liquidnet Canada is publishing this Notice of Proposed Changes in accordance with the "Process for the Review and Approval of Rules and the Information Contained in Form 21-101F2 and the Exhibits Thereto." Market participants are invited to provide the Commission with comment on the proposed changes.

Comment on the proposed changes should be in writing and submitted by February 23, 2015 to

Market Regulation Branch
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, ON M5H 3S8
Fax: (416) 595-8940
marketregulation@osc.gov.on.ca

and

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Comments received will be made public on the OSC website. Upon completion of the Review by OSC staff, and in the absence of any regulatory concerns, notice will be published to confirm the completion of Commission staff's review and to outline the intended implementation date of the changes.

Any questions regarding the information below should be addressed to:

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Liquidnet Canada proposes to introduce the following three (3) changes to the Liquidnet Canada trading system:

1. Canada broker blocks participants include Liquidnet Canada

A. Description of the proposed change

The Liquidnet Canada ATS is expanding “Canada broker blocks” functionality such that Canada broker blocks participants include broker Liquidnet Canada, an IROC-registered securities dealer, acting as agent on behalf of any of its non-Canadian dealer affiliates, which, in turn, is acting as agent on behalf of a third-party dealer registered outside of Canada. In such cases, Liquidnet Canada’s foreign dealer affiliate will route such orders directly to Liquidnet Canada, which will transmit those orders to the Liquidnet Canada ATS. As an example, upon approval, US dealer affiliate Liquidnet, Inc. (LNI) will send orders to trade Canadian equities on behalf of third party dealers registered in the US (agency orders only) to Liquidnet Canada, which will transmit those orders to the Liquidnet Canada ATS. All such third party US dealers will be FINRA members, and orders from such third party US dealers will be routed through US broker dealer (and FINRA member) LNI.

Canada broker blocks participants

Currently, “Canada broker blocks participants” are defined as IROC-registered Canadian brokers that can send orders on behalf of their customers (agency orders only) to trade Canadian equities to the Liquidnet Canada ATS. These brokers are considered direct participants in the Liquidnet Canada ATS and their orders are referred to as “broker block orders.” Their resting orders interact with Liquidnet liquidity in the same manner as orders from trading desk customers, but trading desk personnel do not have access to order information of Canada broker blocks participants. Members and customers elect whether to interact with Canada broker blocks participants. As an IROC-registered Canadian broker, Liquidnet Canada meets the existing definition of Canada broker blocks participants.

With regulatory approval of the proposed change, broker Liquidnet Canada will transmit orders to trade Canadian equities (agency orders only) to the ATS as agent on behalf of any of its non-Canadian dealer affiliates, which, in turn, is acting as agent on behalf of a third-party dealer registered outside of Canada.

B. Expected date of implementation

It is expected that the proposed change will be implemented shortly after satisfaction of the requirements set forth in Section 3.2(1) of National Instrument 21-101, Marketplace Operation (NI 21-101), including the expiration of a 45-day notice period.

C. Rationale for the proposed change

Liquidnet Canada is implementing the proposed change in an effort to provide additional liquidity to the ATS.

D. Expected impact of the proposed change on market structure, subscribers, investors and capital markets

We foresee no adverse impact on market structure, subscribers, investors or the capital markets because the proposed change should only provide additional liquidity for the trading of Canadian equities. Moreover, Liquidnet’s LiquidityWatch group monitors all orders to trade Canadian equities, regardless of the origin of the order, i.e., whether or not the order originated from a Canadian or non-Canadian dealer. Liquidnet Canada will also continue to comply with all applicable requirements of NI 23-101 concerning the recordation of order marker information relating to all orders that it receives, handles and executes, regardless of origin.

E. Expected impact of the proposed change on Liquidnet Canada's compliance with Ontario securities law and the requirements for fair access and maintenance of a fair and orderly market

We foresee no adverse impact on Liquidnet Canada's compliance with market structure, Ontario securities laws or to requirements of fair access and the maintenance of a fair and orderly market.

F. Whether the proposed change will require subscribers and vendors to modify their own systems

The proposed change will not require any work by subscribers or vendors to modify their own systems. The proposed change is not a material change to technology requirements regarding interfacing with or accessing the marketplace within the meaning of Part 12.3 of NI 21-101.

G. Whether the proposed change would introduce a fee model or feature that currently exists in other markets or jurisdictions

Liquidnet Canada's affiliates in other jurisdictions have not implemented the proposed change because "Canada broker block participants" is a participant category that is specific to Canada.

2. Additional configuration for automatically converting indications from active to passive

A. Description of the proposed change

Liquidnet Canada proposes to make available to Members a configuration option whereby active indications are converted to passive status if the mid-point increases (or decreases) by 35 basis points or more from the time that a Member went active on a buy (or sell) indication.

Transmission of indications

Members can interact with Liquidnet Canada by transmitting non-binding indications. Indications are non-binding, which means that a further affirmative action must be taken by the trader before an executed trade can occur.

Matching of indications

Negotiation functionality for Canadian equities is provided through the Liquidnet Canada ATS. For Members that elect to participate in Liquidnet Canada's negotiation functionality, Liquidnet Canada the broker transmits indications received from the Member to Liquidnet Canada's indication matching engine. When a trader at a Member firm (a "trader") has an indication in Liquidnet Canada that is transmitted to Liquidnet Canada's indication matching engine, and there is at least one other trader with a matching indication on the opposite side (a "contra-party" or "contra"), Liquidnet Canada notifies the first trader and any contra. A matching indication (or "match") is one that is in the same equity and instrument type and where both the trader and the contra are within each other's minimum tolerance quantities.

Active, passive and outside status

A trader may set an indication to "outside," which makes the indication ineligible for Liquidnet Canada's indication matching engine. Indications that are eligible for Liquidnet Canada's indication matching engine are considered "in the pool."

An indication that is in the pool can have a status of passive or active. Unless otherwise configured for a trader, all indications have an initial default status of passive. A trader can indicate that he is ready to receive an invitation to negotiate by changing the status of his indication from passive to active. This is also known as "going active." The indication that is made active is known as an "active indication." The active status is displayed to the contras on a match. Going active is not a binding bid or offer.

At present, Liquidnet Canada defaults each Member's active indications to convert to passive in either of the following circumstances:

- 180 seconds after a match breaks
- 180 seconds after a Member makes an un-matched indication active, providing that indication remains un-matched.

Members can override these default configurations upon notice to Liquidnet Canada.

Should the proposed change be implemented, Members can also choose to be configured to automatically convert active indications to passive if the mid-point increases (or decreases) by 35 basis points or more from the time that a Member went active on a buy (or sell) indication.

B. Expected date of implementation

It is expected that the proposed change will be implemented shortly after satisfaction of the requirements set forth in Section 3.2(1) of National Instrument 21-101, Marketplace Operation (NI 21-101), including the expiration of a 45-day notice period.

C. Rationale for the proposed change

Liquidnet Canada is implementing the proposed change because a Member who has chosen to go active may no longer be interested in trading if the price of the stock has changed from the time the Member originally went active. The 35 bps level was selected based on historical feedback from Members concerning what would generally be considered a significant market move in a short period of a time. Based on this Member feedback, Liquidnet has set the level for this available configuration option at 35 bps.

D. Expected impact of the proposed change on market structure, subscribers, investors and capital markets

We foresee no adverse impact on market structure, subscribers, investors or the capital markets because the proposed change should only promote matching situations where both parties have an intention to trade.

E. Expected impact of the proposed change on Liquidnet Canada's compliance with Ontario securities law and the requirements for fair access and maintenance of a fair and orderly market

We foresee no adverse impact on Liquidnet Canada's compliance with market structure, Ontario securities laws or to requirements of fair access and the maintenance of a fair and orderly market.

F. Whether the proposed change will require subscribers and vendors to modify their own systems

The proposed change will provide an additional front-end configuration option, and will not require subscribers or vendors to modify their own systems. The proposed change is not a material change to technology requirements regarding interfacing with or accessing the marketplace within the meaning of Part 12.3 of NI 21-101.

G. Whether the proposed change would introduce a fee model or feature that currently exists in other markets or jurisdictions

Liquidnet Canada's affiliates in other jurisdictions will implement this feature in other jurisdictions prior to the expected implementation of this feature in Canada.

3. Reference prices for pre-open matching of indications with OMS limits

A. Description of change

Liquidnet Canada proposes to allow matching of indications with order management system (OMS) limits pre-open or at market open based on the following reference prices in the applicable stock:

- If there is a valid best bid and best offer in the market, the applicable reference price for the Member (mid-price, bid or offer, as applicable)
- If a valid best bid and best offer is not available, last sale price of the preceding day
- If a valid best bid and best offer and last sale price are not available, most recent closing price.

Matching indications with OMS limits

At present, during regular trading hours in the applicable market, indications with OMS limits are eligible for matching where the limit on a buy indication is at or above the applicable reference price and the limit on a sell indication is at or below the applicable reference price. The default reference price is the mid-price, but Members can request that Liquidnet Canada set the reference price as the bid (in the case of a buy indication) and the offer (in the case of a sell indication).

At present, indications with OMS limits are only eligible for matching if there is a valid best bid and best offer in the market.

Should the proposed change be implemented, Liquidnet Canada intends to allow matching of indications pre-open or at market open for Canadian equities based on the following reference prices in the applicable stock:

- If there is a valid best bid and best offer in the market, the applicable reference price for the Member, as described above (mid-price, bid or offer, as applicable)
- If a valid best bid and best offer is not available, last sale price of the preceding day
- If a valid best bid and best offer and last sale price are not available, most recent closing price.

B. Expected date of implementation

It is expected that the proposed change will be implemented shortly after satisfaction of the requirements set forth in Section 3.2(1) of National Instrument 21-101, *Marketplace Operation* (NI 21-101), including the expiration of a 45-day notice period.

C. Rationale for the proposed change

Liquidnet Canada is implementing the proposed change to promote matching situations for indications having OMS limits.

D. Expected impact of the proposed change on market structure, subscribers, investors and capital markets

We foresee no adverse impact on market structure, subscribers, investors or the capital markets because the proposed change should promote matching situations where both parties have an intention to trade. Matching of indications does not result in an execution until parties have entered into and successfully completed a negotiation. Liquidnet will continue to comply with all applicable requirements of UMIR Rule 6.6 concerning minimum order size and execution price. Orders below the minimum size specified in UMIR Rule 6.6 will be rejected by the Liquidnet Canada system if the negotiation price is not specified as the mid-point.

E. Expected impact of the proposed change on Liquidnet Canada's compliance with Ontario securities law and the requirements for fair access and maintenance of a fair and orderly market

We foresee no adverse impact on Liquidnet Canada's compliance with market structure, Ontario securities laws or to requirements of fair access and the maintenance of a fair and orderly market.

F. Whether the proposed change will require subscribers and vendors to modify their own systems

The proposed change will not require any work by subscribers or vendors to modify their own systems. The proposed change is not a material change to technology requirements regarding interfacing with or accessing the marketplace within the meaning of Part 12.3 of NI 21-101.

G. Whether the proposed change would introduce a fee model or feature that currently exists in other markets or jurisdictions

Liquidnet Canada's affiliates in other jurisdictions have previously implemented the proposed change.