

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

LIQUIDNET CANADA

NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT

Liquidnet Canada has announced plans to implement the changes described below on or about December 17, 2012. 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 December 10, 2012 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.

Liquidnet Canada has announced plans to implement the changes described below on or about December 17, 2012 unless otherwise noted.

Any questions regarding the information below should be addressed to Robert Young, Chief Executive Officer; ryoung@liquidnet.com 416-594-2450.

Liquidnet Canada will introduce the following changes:

- **Auto-negotiation Counter Reset.** Starting on or about December 17, 2012, the Liquidnet Canada ATS will begin accepting firm agency (“client”) orders from IIROC participants who become marketplace subscribers (“streaming liquidity partners” or “SLPs”), including Immediate or Cancel Orders (IOC or “Stream” Orders). This functionality may also require that auto-negotiation to be reset after the system stops sending invites to the manual contra to avoid frustration.
- **Blocking Interaction with SLPs.** Starting on or about December 17, 2012, the Liquidnet Canada ATS will begin accepting client orders from SLPs. Liquidnet will provide Members a list of SLPs upon request. Members can choose to block interaction with specific SLPs that are affiliated entities for a legal/regulatory/compliance restriction on trading or block interaction with all SLPs, by notifying their Liquidnet Relationship Manager.
- **Interactions with IOC order.** Starting on or about December 17, 2012, the Liquidnet Canada ATS will begin accepting client orders from SLPs, including IOC Orders. This functionality will allow subscribers, on an order by order basis, to choose whether or not to interact with these IOC orders, which are typically of smaller size.

1. Introduction of Auto-Negotiation Counter Reset.

A significant change subject to public comment.

Starting on or about December 17, 2012, the Liquidnet Canada ATS proposes to begin accepting firm agency (“client”) orders from IIROC participants who become marketplace subscribers (“streaming liquidity partners” or “SLPs”), including Immediate or Cancel Orders (IOC or “Stream” Orders). This functionality may also require that auto-negotiation to be reset after the system stops sending invites to the manual contra to avoid frustration to the manual contra.

A. Description

Additional detail on auto-negotiation; ability of RMs to reset the auto-negotiation counter. When an institutional investor subscriber with Liquidnet’s front end software (“Member”) or trading desk customer creates an order, depending on the strategy, all or a portion of the order can be submitted to match for potential negotiation with a manually negotiating contra. If the manual contra is active, the Liquidnet system can send an invite to the manual contra and automatically negotiate on behalf of the Member or trading desk customer that created the order. Liquidnet will send an invite in an attempt to engage the manual contra. In certain scenarios, after a failed attempt, the system will stop sending invites to the manual contra. Failed attempts could result from the manual contra declining or missing the invite or the limit on the order moving out outside of the NBBO before the manual contra responds to the invite. If a Liquidnet representative thinks the manual contra is interested, by observing that the manual contra is still active after a failed attempt by the Liquidnet system to engage that contra via the Sales Dashboard internal software, then through Sales Dashboard, a Liquidnet representative can choose to reset the auto-negotiation functionality. This results in the Liquidnet system sending an additional invite to the manual contra, provided that the manual contra is still active and the order is still within the parameters (limit and quantity) to send an invite. The Liquidnet representative physically resets the auto negotiation functionality via Sales Dashboard by right clicking on the match row and selecting “Force LPC invitation.” The Liquidnet representative has no ability to modify the parameters of the order.

B. The Expected Date of Implementation

On or about December 17, 2012

C. The Expected Impact of the proposed Significant Change on Market structure, subscribers, investors and capital markets.

Liquidnet believes that the impact of the proposed changes would be minor, as Members can determine whether or not to use this functionality.

D. Expected impact of the Significant Change on Liquidnet compliance with Ontario securities law and the requirements of fair access and the maintenance of a fair and orderly market

We foresee no negative impact on Liquidnet’s compliance with Ontario securities law or the to the fair access requirements; the trades will occur at the same trading fees as other similar trades on the Liquidnet platform.

E. Introduction of a fee model or feature that currently exists in other markets or jurisdictions

The proposed functionality introduces a feature that currently does not exist in Canada because Liquidnet is the only regulated negotiated ATS in Canadian equities. This feature does currently exist in the Liquidnet Negotiation ATS in the U.S.

2. Blocking interaction with SLPs.

A Significant Change Subject to Public Comment

Starting on or about December 17, 2012, the Liquidnet Canada ATS will begin accepting client orders from SLPs. Liquidnet will provide Members a list of SLPs upon request. Members can choose to block interaction with specific SLPs that are affiliated entities for a legal/regulatory/compliance restriction on trading or block interaction with all SLPs, by notifying their Liquidnet Relationship Manager.

A. Description

Eligible counterparties. A institutional investor Member can choose to block interaction with specific SLPs that are affiliated entities for a legal/regulatory/compliance restriction on trading or block interaction with all SLPs w, by notifying their Liquidnet Relationship Manager.

B. The Expected Date of Implementation

On or about December 17, 2012

C. The Expected Impact of the proposed Significant Change on market structure, subscribers, investors and capital markets

Liquidnet believes that the impact of the proposed changes would be minor, as Member instances of restrictions between related asset managers and IIROC registrants are possible but rare.

D. Expected impact of the Significant Change on Liquidnet compliance with Ontario securities law and the requirements of fair access and the maintenance of a fair and orderly market

We foresee no impact on Liquidnet's compliance with Ontario securities law or the requirements of fair access. There will be no negative impact to fair access because the institutional investor Member will only block a specific SLP if it needs to due to a legal/regulatory/compliance restriction on trading with its affiliate.

E. Introduction of a fee model or feature that currently exists in other markets or jurisdictions

The proposed functionality introduces a feature that currently does not exist in Canada because Liquidnet is the only regulated negotiated ATS in Canadian equities. This feature does currently exist in the Liquidnet Negotiation ATS in the U.S.

3. Interactions with IOC Orders.

A significant change subject to public comment.

Starting on or about December 17, 2012, the Liquidnet Canada ATS will begin accepting client orders from SLPs, including IOC Orders. This functionality will allow Members, on an order by order basis, to choose whether or not to interact with these IOC orders from SLPs.

A. Description

Blocking interaction with IOC Orders. When creating a Supernatural order for Canadian equities, a Member can select on an order-by-order basis whether or not to interact with IOC orders from SLPs.

B. The Expected Date of Implementation

On or about December 17, 2012

C. The Expected Impact of the proposed Significant Change on market structure, subscribers, investors and capital markets

Liquidnet believes that the impact of the proposed changes would be minor, as Members determine whether or not to use this functionality. This will not pose any change to market structure because similar functionality is already provided by others in the marketplace today. For example, if a subscriber wishes to interact with a certain type of liquidity, e.g. order flow from brokers, they would simply route their orders to the marketplaces that have such orders. Our proposed change would simply provide a convenience to the subscribers of our marketplace, to enable them to utilize this similar functionality in Liquidnet, without having to route their orders to a second marketplace in order to avail themselves of the opportunity to interact with a specific type of liquidity.

D. Expected impact of the Significant Change on Liquidnet compliance with Ontario securities law and the requirements of fair access and the maintenance of a fair and orderly market

We foresee no impact on Liquidnet's compliance with Ontario securities law or the requirements of fair access. There will be no negative impact to fair access because the trades will occur at the same trading fees

as other similar trades on the Liquidnet platform. This further does not pose any fair access concerns because each subscriber has a fiduciary duty to protect its customer's order and should have the ability to decide on an order by order basis how to handle that order and who it wishes to interact with for that order. This functionality is fair because it allows the customer, and not the marketplace, to decide how to handle their orders. This functionality furthermore does not discriminate between brokers (SLPs). Liquidnet provides equal access because when a customer opts in to interact with SLPs for an order, that order is equally available to all broker IOC orders on an equal and non-discriminatory basis.

E. Introduction of a fee model or feature that currently exists in other markets or jurisdictions

The proposed functionality introduces a feature that currently does not exist in Canada because Liquidnet is the only regulated negotiated ATS in Canadian equities. This feature does currently exist in the Liquidnet Negotiation ATS in the U.S.