

**13.2.3 Liquidnet Canada Inc. – Notice of Proposed Changes and Request for Comment**

**LIQUIDNET CANADA INC.  
NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT**

Liquidnet Canada announced its plans to implement the changes described below after July 23, 2012. We are publishing this Notice of Proposed Changes in accordance with the requirements set out in OSC Staff Notice 21-703 “Transparency of the Operations of Stock Exchanges and Alternative Trading Systems” (OSC Staff Notice 21-703). Pursuant to OSC Staff Notice 21-703, market participants are invited to provide the Commission with comment on the proposed introduction of the Broker Blocks functionality. Comments on the proposed change should be in writing and submitted by July 30, 2012 to:

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

And to

Sophia Lee  
General Counsel  
498 Seventh Avenue  
New York, NY 10018  
Email: [SLee@liquidnet.com](mailto:SLee@liquidnet.com)

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, a 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 - NOTICE OF PROPOSED CHANGES

Liquidnet Canada has announced plans to implement the changes described below. It is publishing this Notice of Proposed Changes in accordance with the requirements set forth in OSC Staff Notice 21-703.

Any question regarding these changes should be addressed to Robert Young, Chief Executive Officer; [ryoung@liquidnet.com](mailto:ryoung@liquidnet.com) 416-594-2450.

### Description of Proposed Changes and Reason for Changes

The Liquidnet Canada ATS will accept firm agency ("client") orders from IIROC participants ("streaming liquidity partners" or "SLPs") that are (a) IOC ("Stream Orders") or (b) day orders ("Broker Blocks") that meet the minimum order size criteria described below. The Stream Orders have been previously approved by the OSC; we are now also introducing Broker Blocks. We are also proposing to introduce Broker Blocks due to broadened demand for dark crossing. The midpoint trades will reduce market impact resulting from post-trade information and will provide price improvement to both sides of the trade.

### Stream Description (Previously approved)

- For each SLP order, the SLP must specify the security, side (buy or sell) and quantity. The SLP can also specify a limit price. If no price is specified, Liquidnet will impute the following price constraint:
  - Current best bid (in the case of a streaming sell order)
  - Current best ask (in the case of a streaming buy order)
- All of these orders will be executed at the mid-price at the time of execution. In addition, execution will only occur if the execution price is within the price constraint of the streaming order and the price constraint of contra-subscribers' order.
- "Mid-price" means the mid-point between the best bid and best ask in the consolidated NBBO at the time of execution.
- If the spread is one cent, the mid-price is ½ cent above the best bid and ½ cent below the best ask. If the spread is zero (i.e., the best bid and best ask price are the same), the mid-price is the best bid/best ask. If the spread is negative (i.e., the best bid is higher than the best ask), Liquidnet will not execute the order.
- The quantity of any execution will be the lesser of the quantity of the streaming order and the quantity of the contra order.
- Liquidnet will not execute a streaming order until the market has opened (i.e. until the later of (a) the listing market has opened or (b) a trade has occurred on any lit marketplace).

### Broker Blocks Description (New order type)

- Brokers that seek to execute blocks through Liquidnet would be subscribers of the Liquidnet Canada ATS. The minimum order size from a broker is 50 standard trading units; these orders are referred to as "broker block orders". In handling a broker block order, Liquidnet Canada creates a Supernatural order.
- The minimum order size for SLP day orders is 50 standard trading units.
- SLP day orders that meet a pre-defined size (otherwise referred to as "block tolerance") are treated as a contra indication to Liquidnet subscribers and will execute against all contra-side indications or orders in Liquidnet (which could include other SLP day orders).
- SLP day orders, if executed, will be executed at the mid-price.
- A Member can opt out of interacting with broker block orders by contacting its Relationship Manager.

### Continuous Net Settlement

On February 27, 2012 Liquidnet was recognized by IIROC as an acceptable trade matching utility. Trades in Liquidnet by CDS members are continuous net settlement eligible.

**Expected Impact**

**Broker Blocks**

Liquidnet members will be able to interact with additional agency liquidity submitted by IIROC participants, with both achieving mid-point executions while minimizing market impact.