

13.2.2 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 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 3, 2018 to

Market Regulation Branch
Ontario Securities Commission
22nd Floor
20 Queen Street West
Toronto, ON M5H 3S8
Fax: (416) 595-8940
marketregulation@osc.gov.on.ca

and

Thomas Scully
General Counsel
Liquidnet Canada Inc.
498 Seventh Avenue
New York, NY 10018
tscully@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, 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:

Jay Lee
Head of Liquidnet Canada
Liquidnet Canada Inc.
79 Wellington Street West – Suite 2403
TD South Tower
Toronto, ON M5K 1K2
jlee@liquidnet.com

Liquidnet Canada proposes to introduce the following changes to the Liquidnet Canada trading system:

1. Changes to existing broker blocks functionality

A. Description of the proposed change

As previously approved by the Commission, IIROC-registered brokers seeking to execute blocks (currently known as Canada broker blocks participants) can send resting orders (on a firm or conditional basis) in Canadian equities to the Liquidnet Canada ATS. These brokers are considered direct participants in the Liquidnet Canada ATS. Once submitted by the Canada broker blocks participant, these resting orders are available for matching with indications and orders already at Liquidnet, and any executions occur at the mid-price. Buy-side participants (known as Members or customers) of the Liquidnet Canada ATS can choose whether to interact with order flow from Canada broker block participants via Liquidnet’s Transparency Controls tool.

Currently, Liquidnet Canada does not distinguish between broker blocks and buy-side blocks when displaying those trading opportunities to buy-side Members. In other words, Members that have opted-in to interact with broker blocks cannot tell if they are matched with another buy-side firm or a broker when they are notified of a match. In contrast, in all of Liquidnet’s other regions (US, Europe, Asia), Members who have opted-in to broker blocks are informed (via a small indication on the match notification) that a block is from a broker. As a result, in these other regions, Members who have opted-in to broker blocks can choose whether to act on a broker block opportunity upon notification of a match.

In an effort to align and harmonize our trading functionality across all regions, Liquidnet Canada proposes to modify current broker blocks functionality such that buy-side Members trading Canadian equities will be notified when presented with a block trading opportunity from a broker (known as a liquidity partner or LP),¹ as opposed to another buy-side participant. Members will continue to be required to opt-in to interact with broker block flow to be notified of such opportunities. Additional detail concerning this functionality is provided below.

Notification of broker block opportunities

As described above, LPs will transmit resting orders in Canadian equities to the Liquidnet Canada ATS. A buy-side Member with an opposite-side indication to an LP resting order can receive notification of the LP resting order as a broker block opportunity, except for LPs that have elected not to display their LP resting orders as broker block opportunities. Notification is only provided to a Member when the limit price specified by the LP for its buy resting order is at or above the mid-price, or when the limit price specified by the LP for its sell resting order is at or below the mid-price. If a notification is provided and the mid-price subsequently moves above the limit price of the LP's buy order, or below the limit price of the LP's sell order, this is indicated in the notification to the Member.

A Member does not receive notification of a broker block opportunity if the Member has a match with another Member or customer. If there are multiple LP contras, the Member only receives one broker block notification.

Minimum quantity for notification of broker block opportunities

Members only receive notification of a broker block opportunity if the broker block opportunity meets (i) the tolerance of the Member's indication, and (ii) the minimum broker blocks execution quantity, i.e., the lesser of 10,000 shares and \$100,000 in value. A Member also receives notification of a broker block opportunity if two or more LPs in the aggregate have opposite-side quantity that meets the applicable minimum notification quantity as described in this sub-section.

Creation and execution of broker block accepts

Upon receipt of notification of a broker block opportunity, a Member can create a broker block accept. A broker block accept is a resting order with a time-in-force, configurable by Liquidnet, as notified by Liquidnet to participants in advance. A broker block accept cannot be canceled by the Member during this time-in-force period. The execution price of a broker block accept cannot be higher than the mid-price as of the time that the Member submits a buy broker block accept or lower than the mid-price as of the time that the Member submits a sell broker block accept. During the time-in-force period, the broker block accept can execute against any contra-side orders, subject to meeting the tolerance of the Member's indication and the minimum broker blocks execution quantity, as set forth above.

In response to an LP resting order, a Member is not able to reduce its quantity below the minimum size for execution of the LP resting order; this can reveal to the Member information regarding the minimum size for execution of the LP resting order.

Odd-lot completion

Upon request, Liquidnet can enable a Member for odd-lot completion. If a Member is enabled for odd-lot completion and there is an odd-lot residual remaining on the Member's order after a broker block accept, Liquidnet automatically cancels the Member's order and generates an "implementation shortfall" algo order without a limit price. A Member with this configuration can request that a different algo type be used for handling these odd-lot residuals. A Member with this configuration also can request that the residual amount to which this applies be configured to an amount other than an odd-lot.

Configuration to participate in broker block functionality

Members elect through Liquidnet Transparency Controls whether to interact with resting orders from LPs. If a Member elects to interact with resting orders from LPs, Liquidnet can configure the Member to include or exclude receipt of notice of broker block opportunities.

Configuration to dismiss same symbol and side broker blocks for the rest of the trading day

Upon request Liquidnet can set a configuration where the system will display to a trader, upon receipt of a broker block, an option to dismiss the broker block for the remainder of the trading day. If the trader elects this dismissal option, the System will block the trader from receiving any broker blocks for the specific symbol and side for the rest of the trading day.

¹ As noted above, Liquidnet Canada currently refers to Canadian brokers who transmit resting orders in Canadian equities to the Liquidnet Canada ATS as Canada broker blocks participants. If the proposed change is approved, consistent with terminology used in Liquidnet's other regions, Liquidnet Canada will refer to such brokers as liquidity partners or LPs.

B. The expected date of implementation

It is expected that the proposed change will be implemented following the later of (i) the date that Liquidnet Canada is notified that the change is approved and (ii) the date all applicable regulatory requirements have been met.

C. Rationale for the proposed change

Liquidnet Canada is implementing the proposed change to harmonize its current broker blocks offering with functionality provided by its affiliates in other regions, e.g., US, Europe and Asia. Currently, Canada is the only region where there is no distinction between broker blocks and buy-side blocks when displaying those opportunities to buy-side Members. We also believe the proposed change will increase the opt-in rate for broker blocks to the benefit of both brokers and buy-side firms. The proposed change will also enable buy-side Members to better protect and control the handling of their orders by allowing them to decide on an order-by-order basis the type of counterparty it wishes to interact with for a given order.

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 Members currently have the ability to opt-out of interacting with all broker block flow and the proposed functionality will only serve to provide additional flexibility and control to Members by allowing them to determine on a case by case basis whether or not they wish to interact with broker block trading opportunities.

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 Ontario securities laws or to requirements of fair access and the maintenance of a fair and orderly market. With regard to fair access, the proposed change will apply uniformly to an entire class of subscribers, i.e., to all block order flow from broker participants, so there will be no discrimination among broker participants. In addition, buy-side Members have a fiduciary duty to their underlying clients and a legitimate interest in knowing the type of counter-party with whom they are trading, so there is nothing unfair or unreasonable in identifying broker blocks differently than buy-side blocks and allowing buy-side Members to decide how best to execute their orders.

F. Consultations undertaken in formulating the proposed change, including internal governance process followed

Liquidnet Canada and its affiliates consulted with certain customers before proceeding with the proposed change. The proposed change was approved by the management of Liquidnet Canada.

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

The proposed change does not constitute a material change to "technology requirements regarding interfacing with or accessing the marketplace" within the meaning of Part 12.3 of NI 21-101 because subscribers and service vendors will not be required to do any significant amount of systems-related development work or testing to enable the proposed functionality or fully interact with the Liquidnet Canada ATS as a result of the proposed change. More particularly, the proposed functionality has already been developed and implemented in other jurisdictions, so minimal technical work is needed to implement the proposed change for Canada broker blocks.

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

The proposed change to the broker blocks offering has been implemented by Liquidnet Canada's affiliates in the US, Europe and Asia.