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

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LIQUIDNET CANADA

NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT

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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 April 9, 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

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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:

Albert Kovacs
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Liquidnet Canada Inc.
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Toronto, ON M5K 1K2
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Liquidnet Canada proposes to introduce the following changes to the Liquidnet Canada trading system:

1.   Trading of Canadian corporate bonds

A.   Description of the proposed change

Pursuant to an exemption from Section 6.3 of National Instrument 21-101 *Marketplace Operation*, Liquidnet Canada ATS currently provides institutional clients with access to trading of non-Canadian corporate bonds via trading systems operated by foreign affiliates Liquidnet, Inc. (LNI) and Liquidnet Europe Limited (LNEL). Liquidnet Canada ATS proposes to expand its bond trading services to also offer trading of Canadian corporate bonds using the same functionality offered for trading non-Canadian bonds. We note that Section 6.3(b) of NI 21-101 expressly permits trading of Canadian corporate bonds on an ATS.

Hours of trading

As with US bonds, the hours of trading for Canadian high-yield and investment grade corporate bonds will be 7 am London time (2 am EST) to 5 pm EST. Hours of trading are Monday through Friday, except that Liquidnet is closed for trading when the fixed income trading markets are closed in the applicable region. Liquidnet Member Services personnel will be available until 7 pm EST for trade processing and related support for Canadian bonds.

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 offer institutional subscribers liquidity and trading opportunities in a new category of corporate bond, i.e., Canadian bonds. The proposed change will also harmonize trading across the North American region by permitting subscribers to trade both Canadian and US bonds.

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 will only expand the bond trading functionality provided to institutional subscribers by also offering trading of Canadian bonds. As noted above, Section 6.3(b) of National Instrument 21-101 *Marketplace Operation* expressly permits an ATS to trade Canadian corporate bonds.

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.   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 change will not require participants or service vendors to make any changes to the way they currently interface with, service or access the Liquidnet Canada ATS from a technology perspective.

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

Liquidnet Canada does not currently offer trading of Canadian bonds in other markets or jurisdictions. Liquidnet Canada does offer subscribers trading of US and European bonds on marketplaces operated by affiliates.

2.   Virtual High Touch (VHT) functionality for trading bonds

A.   Description of the proposed change

Liquidnet Canada ATS is proposing to provide Canadian institutional clients with access to Virtual High Touch ("VHT") workflow functionality for trading both Canadian and non-Canadian bonds.

Background

Liquidnet Canada ATS currently provides institutional clients with access to trading of non-Canadian corporate bonds via trading systems operated by foreign affiliates Liquidnet, Inc. (LNI) and Liquidnet Europe Limited (LNEL). The fixed income trading system provides negotiation functionality based on indications (not firm orders) sent by Members to the Liquidnet Canada ATS, which are then routed to the indication matching engine operated by affiliates LNI and LNEL. Upon receipt of notification of a match, the two matching Members may negotiate a price for the trade. When a match is not available, a buy-side subscriber who has opted into targeted invitations (TI) functionality can send a TI to (i) a trader who had an opposite-side indication in the bond during a specified look-back period, and (ii) a trader who has the bond on his or her targeted invitation watchlist.

Overview of the proposed Virtual Hight Touch® (VHT) functionality

Building upon existing dark matching and targeted invitation functionality, LNI and LNEL have implemented VHT for Members located in the US and Europe. VHT functions as a smart, virtual assistant that reviews a subscriber's fixed income orders (as made available to the system) and suggests an execution strategy for different groups of orders. For example, VHT may suggest a "lit" strategy for a small order in a liquid bond, while suggesting a "dark" strategy for a larger order in a less liquid bond (including, in the case of buy orders, the possibility of substitute liquidity in similar bonds). While additional detail concerning the proposed functionality is provided below, we wish to highlight the following important characteristics of the proposed VHT workflow:

- VHT allows for different handling of indications based on whether the indication is included in the lit or dark stream.

- VHT incorporates both pre-existing functionality, e.g., dark matching, negotiation and targeted invitations, and new functionality, e.g., open invitations and substitute liquidity.

- A trader can disable VHT or change his or her VHT configurations at any time.

Criteria for Initial grouping in the lit or dark stream

To be included in the lit stream for the initial grouping, an indication must meet all of the following criteria:

- *Indication size.* The indication size cannot be greater than the threshold size designated by the trader. The following are the default thresholds:

	Canadian and US bonds	**European bonds**
High-yield bond	$2.5 million	€2.5 million
Investment grade bond	$5 million	€5 million

A trader can adjust these default thresholds.

- *Issue size.* The issue size for the bond must be $400 million or more, or the equivalent in another currency if the bond is issued in another currency.

- *Price.* The last known mid-price for the bond (as obtained by Liquidnet from a third-party source that estimates the mid-price) must be 85% of the face value or higher.

- *Trading volume.* For a US bond, there must have been at least one trade of $1 million or more notional amount at any time during the current trading day or the preceding five trading days. At present, the trading volume condition only applies for US bonds.

Liquidnet may amend these criteria in the future subject to prior notice to customers. The criteria other than indication size are not configurable by trader or customer.

If an indication does not meet all of the applicable criteria to be in the lit stream, as described above, the indication is initially grouped in the dark stream. A trader can move a specific indication from the dark stream to the lit stream or from the lit stream to the dark stream. The dark stream process (as described below) commences for any indication that Liquidnet initially groups in the dark stream upon receipt of the indication by Liquidnet.

Commencement of the lit stream process

A trader at a Member or dealer firm can make one of the following elections for when the lit stream process should commence for an indication that Liquidnet initially groups in the lit stream:

- *Upon trader confirmation.* This is the default option. If a trader elects this option, the lit stream will only commence for an indication upon confirmation from the trader. If a trader elects this option, the system notifies the trader upon Liquidnet's receipt of an indication by Liquidnet (except as described below with respect to subsequent indications).

- ***10 minutes after receipt of the indication by Liquidnet.*** If a trader has elected this option, the system notifies the trader upon receipt of an indication by Liquidnet (except as described below with respect to subsequent indications). During the 10-minute period, the trader can move any indications between the lit and dark streams. If the trader during this period confirms his or her selections, the lit stream process will commence for any indications in the lit stream grouping and the dark stream process will commence or continue for any indications in the dark stream grouping. If the trader does not confirm his or her selections within the 10-minute period, at the end of the 10-minute period, the lit stream process will commence for any indications in the lit stream grouping and the dark stream process will commence or continue for any indications in the dark stream process. The 10-minute period is also referred to as the "interim period".

- ***Upon receipt of the indication by Liquidnet.*** If a trader elects this option and an indication is eligible for the lit stream, the system automatically handles the indication as a lit stream indication.

Prior to the lit stream process commencing for an indication that Liquidnet initially groups in the lit stream, the indication is subject to standard matching and negotiation functionality and targeted invitations are automatically sent to eligible recipients.

Commencement of the lit stream process for subsequent indications

If Liquidnet receives indications from a trader that are not part of the trader's first group of indications for a trading day (referred to as a "subsequent group of indications"), Liquidnet will not display the VHT dashboard to the trader until the earlier of:

- the receipt by Liquidnet of five or more indications as part of this subsequent group

- 30 minutes after receipt by Liquidnet of the first indication in this subsequent group.

Upon request by a trader, Liquidnet can change the number of indications or time period for determining when the VHT dashboard will be displayed to the trader for a subsequent group of indications.

If a trader has elected to enable automated sending of indications to the lit stream 10 minutes after receipt by Liquidnet, the 10-minute period for any indications in a subsequent group of indications will commence when Liquidnet displays the VHT dashboard to the trader.

This sub-section applies where the trader's method for sending indications to Liquidnet is manual or through the trader's OMS. This sub-section does not apply where the trader's method for transmitting indications is import or copy and paste.

Capped size for the dark and lit streams

A trader at a Member or dealer firm can set separate default cap sizes for either or both of the following:

- Lit stream indications

- Indications sent from the dark stream to the displayed book.

A cap size sets a maximum size that is displayed to other VHT customers for an indication.

When setting a default cap size for either lit stream indications or dark stream indications sent to the displayed book:

- A trader selects a default cap size based on a menu of thresholds provided by Liquidnet for each type of bond.

- In addition to selecting a default cap size, the trader can elect as a default to display a plus sign when the size of the trader's indication is above the cap size set by the trader for the applicable type of bond.

A trader can override or adjust the default cap size for any specific indication.

Dark stream process

The dark stream process for an indication involves the following steps in sequence (except as otherwise indicated):

- Step 1: Negotiation functionality

- Step 2: Send targeted invitations to eligible recipients, except that the only parameters that apply are look-back period and priority (i.e., whether to prioritize recipients based on "most recent" or "size"). In Step 2, targeted invitations are not sent to watchlist recipients.

- Step 3: Send targeted invitations to watchlist recipients.

- Step 4: Send targeted invitations to up to ten eligible recipients that are known holders of the bond, as described below.

- Step 5 (for buy indications only): Identification of opposite liquidity in a similar bond of the same issuer.

- Step 6 (for buy indications only): Identification of opposite liquidity in a similar bond of another issuer.

- Step 7: Display all or a portion of the indication in the displayed book.

Steps 2 through 6 are not available for dealers. Steps 4 through 7 are described in more detail below. Steps 5 and 6 are also referred to as "substitute liquidity alerts".

Mandatory and optional steps

Steps 1 and 2 are mandatory for the dark stream. Steps 3 through 7 are optional and can be configured by a trader. Steps 3 and 4 are enabled by default; Steps 5 through 7 are disabled by default.

Progression of steps

The negotiation step for an indication continues for as long as there is at least one opposite-side match or negotiation for the indication, but if the only remaining matches are resting matches, the system proceeds to the next step. Steps 2, 3 and 4 continue until the respective periods for each targeted invitation recipient to respond have expired. Steps 5 and 6, once commenced, apply continuously. Step 7 (the displayed book), once commenced, applies continuously, except that if a match (other than a resting match) or negotiation is in effect for an indication, the indication is not displayed in the displayed book during that period.

Steps 1 through 4, subject to the trader having enabled the relevant step, are repeated continuously during the trading day while the indication is still in the dark stream, except that the commencement of a match for negotiation pauses the sending of TIs. If a trader has enabled Step 7 and all or a portion of the trader's indication is displayed in the displayed book (as described below), the indication continues to reside in the dark stream.

If a trader has received a targeted invitation or match notification for a bond based on a prior step or cycle, the trader does not receive a targeted invitation or match notification for the same bond and contra in a subsequent step or cycle.

If a negotiation for a VHT indication is not successful, the system continues to display a resting match as it moves to subsequent steps. Negotiation continues to be available while other steps are in process.

Option to display a cap size for dark stream targeted invitations

If elected by a trader, Liquidnet can configure the trader's targeted invitations sent in Steps 2 through 4 above to display size. If the size of the trader's indication is above the thresholds in the table below, the system will disclose the targeted invitation as being above the threshold without displaying the actual size:

	Canadian and US bonds	**European bonds**
High-yield bond	$2.5 million	€2.5 million
Investment grade bond	$5 million	€5 million

For example, if the targeted invitation is for a high-yield US bond and the trader's indication size is $3 million, the targeted invitation will display a size of $2.5 million+. This configuration is not enabled by default. A trader can enable this configuration through the Liquidnet desktop software or by request to the trader's sales coverage.

Displayed book and open invitations

In addition to Step 7, a trader at any time can display all or a portion of a dark stream indication in the displayed book or initiate an open invitation for a dark stream indication, as described below.

Targeted invitations to known holders of a bond

This step involves sending targeted invitations to up to ten recipient firms that are known holders of the applicable bond, based on publicly available data. A recipient firm could have multiple traders who receive a targeted invitation. Recipients are prioritized based on the size of their respective holdings with a recipient with a larger reported holding receiving a targeted invitation ahead of a recipient with a smaller reporter holding. Liquidnet updates this data on a periodic basis. If the number of known holders exceeds ten, recipients are prioritized based on the size of their respective holdings.

A recipient of a targeted invitation pursuant to this section (a "known holder recipient") has the same options as a watchlist recipient of a targeted invitation, except that a known holder recipient has one minute to respond, instead of three minutes.

By default, all VHT customers can receive targeted invitations sent pursuant to this section. A trader can elect to block receipt of these targeted invitations.

Identification of opposite liquidity in similar bonds of the same issuer

If a trader has this option enabled, the trader can pre-configure the maturity and yield ranges for other bonds of the same issuer that the trader would consider substitute bonds. A trader can configure the maturity range as a specified number of years above or below the maturity of the bond in which the trader has the buy indication (referred to as the "base bond"). For base bonds with a maturity of 20 years or more, the minimum maturity range is plus or minus 5 years. A trader can configure the yield as a percentage plus or minus relative to the base bond.

If a trader selects this option, the trader can view potential matches in these substitute bonds from contras that also have this option enabled. The contras cannot view the potential match at this point. Upon receipt of a notification pursuant to this section, a trader can create an indication in the substitute bond, resulting in a match eligible for negotiation.

As noted above, this option only applies where the trader has a buy indication. If a trader enables this option, the trader's indications can be identified to other traders who have this option enabled.

Identification of opposite liquidity in similar bonds of other issuers

If a trader has this option enabled, the trader can pre-configure the maturity and yield range for similar bonds of other issuers that the trader would consider substitute bonds, as described in the preceding section.

If a trader selects this option, the trader can view potential matches in these substitute bonds from contras that also have this option enabled. The contras cannot view the potential match at this point. Upon receipt of a notification pursuant to this section, a trader can create an indication in the substitute bond, resulting in a match eligible for negotiation.

As noted above, this option only applies where the trader has a buy indication. If a trader enables this option, the trader's indications can be identified to other traders who have this option enabled.

Additional provisions relating to identification of opposite liquidity in similar bonds

> *Display of size*

In connection with notification of opposite liquidity in a substitute bond:

- Size (subject to any applicable cap) is displayed to the trader receiving notice of the substitute bond (the "first trader") if the opposite liquidity is in the displayed book or the trader with the opposite liquidity has sent an open invitation for the indication.

- Size is not displayed to the first trader if the opposite liquidity is a dark stream indication, unless the trader with the opposite liquidity agrees to disclose size based on the request of the first trader, as described below.

Cap on number of substitute bonds

Liquidnet can set a cap on the number of substitute bonds that can be identified for any buy indication. The initial cap will be three; Liquidnet can modify the cap from time-to-time.

Prioritization of substitute liquidity

If the number of substitute bonds exceeds the cap set by Liquidnet, Liquidnet will prioritize the substitute bonds for display based on prioritization criteria relating to maturity, issue size, and/or yield.

Minimum size for displaying indications in substitute bonds

Offer indications are identified as substitute bonds only if the indication size meets the following minimum size threshold:

	Canadian and US bonds	**European bonds**
High-yield bond	$2.5 million	€2.5 million
Investment grade bond	$5 million	€5 million

Responding to a notification of substitute bonds

Upon receipt of a notification of substitute bonds, a trader has the following options with respect to each bond included in the notification:

- *Accept the notification.* This results in a match for potential negotiation.

- *Reject the notification.* This cancels the notification.

- *Request size (when the notification does not display size).* See discussion below.

When the trader receiving the notification requests size, the system provides the following options to the trader who has the substitute bond:

- Disclose a specific cap size based on a menu of thresholds made available by Liquidnet (for example, $5 million)

- Disclose the full size

- Reject the request.

Displaying all or a portion of a dark stream indication in the displayed book

If a trader enables Step 7, Liquidnet will display in the displayed book all or a portion of the trader's dark stream indications. In the case of a Member indication, Liquidnet will display the indication to all VHT customers, unless the trader has elected to block dealers from viewing the trader's indications. In the case of a dealer indication, Liquidnet will display the indication to Members but not to other dealers.

Additional configurations relating to display of dark stream indications in the displayed book

The following additional configurations, as elected by a trader at a Member or dealer firm, are available relating to the display of dark stream indications in the displayed book:

- The trader can elect to require a prompt to the trader and a confirmation from the trader before the applicable portion of an indication can be displayed in the displayed book

- The trader can elect to designate a time at which an indication can first be displayed, which can either be:

  o A specific time of day

  o A specified number of minutes after the indication has been received by Liquidnet.

When confirming that an indication can be displayed in the displayed book, a trader also can modify the default cap for that indication and elect whether or not to display a plus sign if the size of the trader's indication exceeds the cap set by the trader for the indication.

Lit stream process

The lit stream process for an indication involves the following steps in sequence (except as otherwise indicated):

- Step 1: Negotiation functionality

- Step 2: Send targeted invitations to eligible recipients, except that the only parameters that apply are look-back period (as set by the trader and subject to any look-back period restrictions set by the recipient) and priority (i.e., whether to prioritize recipients based on "most recent" or "size"). The max recipients and time in force parameters do not apply. In Step 2, targeted invitations are not sent to watchlist recipients.

- Step 3: Send targeted invitations to watchlist recipients.

- Step 4: Display all or a portion of the indication in the displayed book

- Step 5: Alert eligible recipients that are known holders of the bond that there is an indication in the displayed book or an open invitation, as applicable. By default, all VHT customers can receive these alerts; upon request by a trader, Liquidnet can disable the trader from receiving these alerts or filter the alerts received by a trader. These alerts are sometimes referred to as "displayed book alerts".

- Step 6: Send an open invitation.

Steps 4 through 6 are described in more detail below.

Mandatory and optional steps

Steps 1 through 4 are mandatory for the lit steam, except that a trader can elect to skip the sending of targeted invitations (Steps 2 and 3). Steps 5 and 6 are optional and can be configured by the trader through the settings area of the Liquidnet desktop software or by request to the trader's sales coverage. Step 5 is enabled by default; Step 6 is disabled by default.

Progression of steps

The negotiation step for an indication continues for as long as there is at least one opposite-side match or negotiation for the indication, but if the only remaining matches are resting matches, the system proceeds to the next step. Steps 2 and 3 continue until the respective periods for each targeted invitation recipient to respond have expired; Steps 2 and 3 no longer apply once Step 4 has commenced, but a trader who otherwise would have received a targeted invitation based on Steps 2 and 3 will receive an alert in place of the TI. Step 4, once commenced, operates continuously, except that:

- If a match (other than a resting match) or negotiation is in effect for an indication, the indication is not displayed in the displayed book during that period; and

- When an open invitation has been sent for an indication (Step 6), the indication is removed from the displayed book until the open invitation process expires (as described below), including where cancelled by the trader that initiated the open invitation.

Upon termination of the open invitation process, the indication is once again displayed in the displayed book. For any indication in the lit stream, a trader can initiate the open invitation process at any time.

If a trader has received a match notification for a bond based on a prior step or cycle, the trader does not receive a match notification for the same bond and contra in a subsequent step or cycle.

If a negotiation for a VHT indication is not successful, the system continues to display a resting match as it moves to subsequent steps. Negotiation continues to be available while other steps (including Step 6) are in process. While a match (other than a resting match) or negotiation is in effect for an indication, the indication is not displayed in the displayed book.

Displayed size for lit stream targeted invitations

Liquidnet displays the size for all lit stream targeted invitations based on the trader's configuration for displaying size.

Displaying all or a portion of a lit stream indication in the displayed book

If a trader at a Member enables this step, Liquidnet will display all or a portion of the trader's displayed book indications to all Members that are enabled for VHT. The size displayed takes into account any cap size set by the trader. Liquidnet also displays a trader's displayed book indications to dealers, unless the trader has elected to block dealers from viewing the trader's indications.

If a trader at a dealer enables this step, Liquidnet will display a portion of the dealer's indication to all Members that are enabled for VHT, but not to other dealers.

Information displayed

The displayed book displays the following information for an indication:

- Ticker

- Direction (buy or sell)

- Size (subject to any cap size as set by the trader).

A trader also has the option to display the following for all of his or her displayed book indications:

- Price

- A "MID" preference, signaling intention to trade around the mid-price for the bond even though no such mid-price is identified.

Price and MID preference are not displayed, unless the trader elects this configuration.

The displayed book identifies whether an indication is from a Member or a dealer. If a displayed book indication is from a dealer, the system shows the indicative price and indicative size.

Interacting with a displayed book indication

A trader can elect to interact with a displayed book indication, in which case the matching and negotiation process applies. While a match (other than a resting match) or negotiation is in effect for an indication, the indication is not displayed in the displayed book. Upon termination of all matches (other than resting matches) and negotiations, the indication can once again be displayed in the displayed book.

Submitting a displayed book indication after a partial execution or failed negotiation

Following a partial execution or a failed negotiation in the dark or lit stream, a trader has the option to send a displayed book indication, with or without a price displayed. In this scenario, if the trader's indication is already displayed in the displayed book but without a displayed price, the trader can elect to display a price.

Open invitations

An open invitation is a request for bids or offers sent to other customers that have enabled VHT. An open invitation has the following characteristics:

- Ticker

- Identifier

- Direction

- Size

- Minimum size for response

- Expiry time (in minutes) ("expiry time")

- Time for responses to be valid after expiry ("good for time").

Only traders at Member firms can send open invitations; dealers cannot send open invitations. A bid or offer sent in response to an open invitation is referred to as a "response".

Automated and manual sending of open invitations

For indications in the lit stream, a trader can enable the automated initiation of the open invitation process (Step 6). For these indications, Liquidnet applies the default parameters (size, minimum size for responses, expiry time and good for time) pre-set by the trader. The system only initiates the open invitation process one time for any indication in the lit stream.

Alternatively, a trader can enable Step 6 of the lit stream process subject to the trader confirming the initiation of the open invitation process for any indication. If a trader elects this configuration, the system will display a reminder to the trader prior to Step 6, but the system will not initiate the open invitation process for any indication unless confirmed by the trader for the specific indication.

In addition, to these configurations, a trader at any time can manually initiate the open invitation process for any lit or dark stream indication, including for indications where the open invitation process has previously occurred.

Display of open invitations in the displayed book

When a trader submits an open invitation, the open invitation appears in the displayed book but with a time counter next to it to identify it as an open invitation with a time expiry. By default, open invitations from traders at a Member firm are sent to all Members and dealers that participate in VHT, but a trader at a Member firm can elect to block dealers from viewing open invitations from the trader.

Responses; expiry and good for times

Any customer that sees an open invitation can send a response before the expiry time. The originator of an open invitation can view any response at the time it is sent and execute against one or more of the responses before the expiry time or between the expiry time and the end of the good for time.

A trader cannot cancel his or her response between the expiry time and the good for time (i.e., the response is executable by the initiator of the open invitation during this period).

Display of responses

Responses are displayed to the originator of the open invitation in order based on the following criteria:

- *Price.* Orders with a better price (i.e., higher bid price or lower offer price) are displayed above orders with a worse price.

- *Size.* For orders with the same price, a larger size order is displayed above a smaller size order.

- *Time stamp of response creation.* For orders with the same price and size, an order with an earlier time stamp is displayed above an order with a later time stamp.

Prioritization of responses

Orders are prioritized for execution in the same manner as they are displayed. If the originator of an open invitation accepts responses that have different prices, the execution price for all executions is the highest offer or lowest bid price accepted by the originator.

Maximum execution size

A trader can establish a size cap to be communicated in any open invitation sent for the trader's indications. The originator of an open invitation cannot accept responses for an aggregate size that is greater than the size communicated in the open invitation, unless the originator includes a "+" in the open invitation (for example, $2MM+).

Executions below a responder's size and the sender's minimum size

A trader who initiates an open invitation can elect to execute against a responder for a size that is below the responder's size and below the minimum size for response set by the trader.

Termination of an open invitation

An open invitation terminates upon the earliest to occur of the following events:

- The originator receives no responses by the expiry time

- The originator executes against one or more responses

- The originator has not executed against one or more responses by the good for time

- The originator cancels the open invitation.

Limiting the number of targeted invitations received by a recipient for a bond

A trader (the first trader) can limit the number of targeted invitations for a specific bond sent by the first trader that can be received by another trader (the second trader) during a specified period of time. This limitation is not enabled by default, but may be implemented by a trader. If a trader elects to implement this limitation, the following configurations are available:

- Maximum number of targeted invitations for a specific bond sent by the first trader that can be received by any second trader over the applicable time period: 1, 2, or 3

- Applicable time period for the above limitation: 10 or 20 trading days.

Disabling and filtering alerts

For purposes of this section, alerts mean targeted invitations, displayed book alerts and open invitations. A trader can disable receipt of any or all of these alerts or filter any or all of these alerts based on one or more special characteristics, including:

- Sector or sectors

- Maturity range

- Rating

- Direction (buy or sell or both)

- Minimum size

- Yield range

- Credit spread range

- Limit to bonds where the trader had recent indications

- Filter for open invitations only

- Whether the securities are on a specific watchlist that the trader has set up

- Whether the securities are in the Member's holdings, and subject to any additional filters with respect to these holdings applied by the Member.

VHT dashboard

The VHT dashboard, which is part of the Liquidnet desktop application, displays VHT activity to a trader.

Pre-market blocks

Pre-market blocks is a pre-market session during which eligible customers can display indications of $5 million or more for high-yield bonds and $10 million or more for investment grade bonds. The indications are only displayed to other eligible customers.

Eligibility criteria

The following are the eligibility criteria for a customer to participate in pre-market blocks:

- The customer must be a Member

- The Member must have assets under management in corporate bonds globally of $75 billion or more, based on public information or information provided by the Member

- Any participating trader must have elected to participate in VHT.

For traders at a Member to view indications from other Members during any particular session (and have the Member's indications displayed to other participating Members during the session), traders at the Member must submit in aggregate at least two blocks during the session (for example, one trader at the Member submits two blocks or two traders at the Member each submit one block).

Information displayed & execution process

During a session, eligible customers can see the ticker and direction of available blocks. The size is not displayed, but customers know that the indication size meets the minimum size criteria set forth above. The execution process during the pre-market blocks session is the same as the matching and negotiation process, except as otherwise set forth in this section. Initially, Liquidnet will make the pre-market blocks session available periodically and will provide advance notice through the system when a pre-market block session will be made available.

Data from VHT via FIX in external system

Members and dealers that participate in VHT can receive data from VHT activity ("VHT data") via FIX or other automated feed into their own systems, including an OMS. Receipt of this data is subject to completing the required technical integration with Liquidnet in accordance with Liquidnet's technical requirements. VHT data consists of VHT public data and VHT restricted data and is limited to data that is otherwise available to the applicable Member through the Liquidnet desktop software.

VHT public data

VHT public data consists of information available to all VHT customers through the Liquidnet desktop software, as follows:

Category	Specific fields available
Information on displayed book indications	Ticker; direction; displayed size; price (if applicable); MID flag (if applicable); and time stamp
Information on open invitations	Ticker; direction; size; minimum size; expiry time; good for period; and time stamp
Dark and lit stream trade executions	As per Liquidnet's trade display policy set forth in Section 8.02

Note that VHT public data is not in fact public data and is considered confidential to Liquidnet and the applicable customers. Customers are subject to the same obligations of confidentiality as they are subject to with respect to other confidential information of Liquidnet and other customers.

VHT restricted data

VHT restricted data consists of information that is available to a VHT participant through the Liquidnet desktop software but is not available to all VHT customers through the Liquidnet desktop software, as follows:

Category	Specific fields available
Availability of a match against one of the Member's dark or lit stream indications	Ticker; direction; minimum size; and time stamp
Last price from the contra in a negotiation for a dark or lit stream indication	Ticker; direction; minimum size; price; and time stamp

Category	Specific fields available
Receipt of a dark or lit stream targeted invitation	Ticker; direction; minimum size; displayed size (if applicable); price (if applicable); type of targeted invitation; and time stamp
Suggestion for substitute liquidity	Information relating to the base bond: ticker; direction; and size
	Information relating to any substitute bond: ticker; direction; displayed size (if applicable); and time stamp

Handling open invitations in an external system

If Liquidnet has certified a customer for FIX connectivity (or other type of connectivity), the customer can engage in the following VHT activity through the customer's own system (including an OMS):

- Respond to open invitations from other customers and receive notice of resulting executions

- Send open invitations, review responses to open invitations initiated by the customer, execute against the responses, and receive notice of resulting executions

This process is based on a Liquidnet FIX specification or other Liquidnet technical specification. In all cases when using this connectivity, the customer must also be logged-on to the Liquidnet desktop software. Any data provided pursuant to this section is data that is otherwise available to the applicable customer through the Liquidnet desktop software.

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 VHT functionality to improve the trading experience for Canadian participants by increasing the probability of executing larger orders in less-liquid bonds against natural liquidity, while minimizing time spent on smaller, easier to trade orders. The proposed functionality has already proven successful in the US and European market, and Liquidnet Canada respectfully submits that Canadian participants are currently at a disadvantage without it.

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 will only help participants execute more of their orders in both Canadian and non-Canadian corporate bonds via the marketplace.

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

Liquidnet Canada 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 change will not require participants or service vendors to make any changes to the way they currently interface with, service or access the Liquidnet Canada ATS from a technology perspective. The proposed functionality has already been developed and implemented in other

jurisdictions, so Liquidnet Canada need only enable Canadian subscribers for this functionality in order to implement the proposed change.

H.   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 already implemented the proposed functionality in other markets.