

Chapter 13

SROs, Marketplaces, Clearing Agencies and Trade Repositories

13.2 Marketplaces

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



Liquidnet Canada, Inc.
200 Bay Street – Suite 3400
Toronto, ON M5J2J4
P: 877 660 6553
F: 416 504 8923

LIQUIDNET CANADA

NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT

Liquidnet Canada has announced plans to implement the changes described below on or after October 1, 2014. 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 September 22, 2014 to

Market Regulation Branch
Ontario Securities Commission
22nd Floor, Box 55
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.

Liquidnet Canada has announced plans to implement the changes described below on or after October 1, 2014 unless otherwise noted.

Any questions regarding the information below should be addressed to:

Robert Young
Chief Executive Officer
Liquidnet Canada Inc.
200 Bay Street Suite 3400
Toronto, ON M5J2J4
ryoung@liquidnet.com

Liquidnet Canada proposes to introduce the following four (4) changes:

1. Implementation of a minimum match quantity for negotiations

Liquidnet Canada will not match two contra-side indications unless each indication meets the minimum quantity requirement, where the minimum quantity requirement is the lesser of 5,000 shares and 5% of average daily trading volume (ADV) for the stock for the 30 preceding trading days.

As discussed more fully below, the minimum match quantity for an indication does not apply to a continuing negotiation with the same contra after a partial execution of the indication with that contra.

A. Description

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.

Members transmit indications from their order management system (OMS) to Liquidnet and manage those indications through the Liquidnet desktop application, which is installed at one or more trader desktops at the Member firm. Indications can be transmitted through a periodic sweep, FIX transmission or other method agreed among Liquidnet, the Member and the Member's OMS vendor, as applicable.

Matching of indications

Negotiation functionality for Canadian equities is provided through the Liquidnet Canada ATS. For Members that elect to participate in Liquidnet's negotiation functionality, Liquidnet the broker transmits indications received from the Member to Liquidnet's indication matching engine. When a trader at a Member firm (a "trader") has an indication in Liquidnet that is transmitted to Liquidnet'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 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.

Tolerance

A trader is matched with a contra on an indication only if the working quantity of each trader's indication is at or above the other trader's minimum tolerance quantity (or "tolerance"). A trader's tolerance on an indication represents the minimum working quantity against which the trader is matched and is intended to protect a trader from negotiating with a contra whose working quantity is too small. A trader's working quantity sets the maximum quantity he or she can execute in a negotiation.

Tolerance based on working quantity and ADV

The system sets a default tolerance percentage based on the lower of a percentage of working quantity and a percentage of ADV. A trader can adjust each of the default tolerance percentage settings within a permitted range of percentages at the trader level and at the indication level. "ADV" means the average daily trading volume in the stock for the 30 prior trading days. A trader also can choose to set his default tolerance percentage based on working quantity only. Liquidnet also has set a default maximum tolerance for Canadian equities, which a Member can adjust.

Tolerance after an initial trade is executed

Tolerance does not apply after an initial trade is executed on an indication.

Negotiation

When Liquidnet notifies a trader of one or more active contras for a security, the trader can start a negotiation for that security by selecting a contra, specifying a price and negotiation quantity, and submitting a bid or offer. This is also known as "sending an invitation." When a trader sends an invitation in response to an active indication, he is making a firm bid or offer. Liquidnet negotiations are anonymous one-to-one negotiations through which traders submit bids and offers to each other. The first bid or offer in a negotiation is submitted when one trader opens the negotiation room and sends an invitation. Subsequent bids and offers may be submitted as counter-bids or counter-offers in the negotiation.

“Negotiation quantity” is the quantity set by a trader when he makes a bid, offer, counter-bid or counter-offer or agreed to by a trader when he accepts a bid, offer, counter-bid or counter-offer. A trader’s negotiation quantity defaults to his working quantity at the start of a negotiation, but the trader can modify his negotiation quantity before submitting a bid, offer, counter-bid, or counter-offer.

At present, other than minimum tolerance quantities, there is no other minimum quantity required for matching of indications.

The proposed minimum match quantity for negotiations

Should the proposed change be implemented, Liquidnet Canada will not match two contra-side indications unless each indication meets the minimum quantity requirement, where the minimum quantity requirement is the lesser of 5,000 shares and 5% of ADV. “ADV” means the average daily trading volume (ADV) for the stock for the 30 preceding trading days. The proposed minimum match quantity is in addition to the current tolerance conditions that Liquidnet Canada applies (discussed above). Therefore, under the current proposal, a match will only occur if each contra-party has an indication that meets the minimum quantity requirement and each party’s indication quantity is at or above the tolerance of the contra-party.

The minimum match quantity for an indication does not apply to a continuing negotiation with the same contra after a partial execution of the indication with that contra. In other words, after a partial execution between two contra-parties, the match will not break simply because remaining quantity for one party is less than the minimum match quantity.

Rationale for the proposed change

As a venue that focuses on block trading, Liquidnet Canada is implementing this change (in conjunction with the proposed minimum execution quantity discussed below) in an effort to facilitate negotiations and ensure that Member firms have an opportunity to match and execute significant portions of their indications, as Members seeking to trade large blocks are most interested in being notified of matches above the minimum levels specified in the proposed change.

B. The Expected Date of Implementation

On or after October 1, 2014.

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

Liquidnet Canada believes that the impact of the proposed changes would be minor because Liquidnet is a venue that focuses on block trading, where the historical average trade quantity is well-above the minimum match quantity threshold proposed.

D. Expected impact of the proposed change on Liquidnet compliance with Ontario securities law and the requirements for fair access and maintenance of a fair and orderly markets

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.

E. Whether the proposed change would increase or decrease systemic risk in the Canadian financial system

We foresee no significant impact on systemic risk in the Canadian financial system.

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

Liquidnet Canada consulted with specific Members and customers to validate the proposed change. The proposed change was approved by Liquidnet’s Global Operating Committee.

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

The proposed change introducing a minimum match quantity for negotiations will likely be implemented by Liquidnet in other jurisdictions prior to the expected implementation of this feature in Canada.

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

The proposed change will not require subscribers or vendors to modify their own systems.

2. Implementation of a minimum execution quantity for negotiations

In coordination with the proposed minimum match quantity for negotiations discussed above, Liquidnet also proposes to implement a minimum execution quantity for negotiations on the Liquidnet Canada ATS, where the minimum execution quantity for negotiations will also be the lesser of 5,000 shares and 5% of the average daily trading volume (ADV) for the applicable stock for the 30 preceding trading days. As with the proposed minimum match quantity, the minimum execution quantity for negotiations will not apply to a continuing negotiation with the same contra after a partial execution of the indication.

A. Description

Negotiation and execution

When Liquidnet notifies a trader of one or more active contras for a security, the trader can start a negotiation for that security by selecting a contra, specifying a price and negotiation quantity, and submitting a bid or offer. This is also known as “sending an invitation.” When a trader sends an invitation in response to an active indication, he is making a firm bid or offer. Subsequent bids and offers may be submitted as counter-bids or counter-offers in the negotiation. A trader specifies a negotiation quantity each time he submits a proposal. If the negotiation quantity submitted by a trader is below the contra’s minimum tolerance quantity, Liquidnet notifies the contra that the proposal is below his tolerance.

A trader can accept a contra’s proposal by clicking accept. A trader also can accept a proposal by submitting the same price as the price of the contra’s proposal (as long as the trader’s negotiation quantity is within the contra’s tolerance). A trader can accept a proposal even after receiving notification that the contra’s proposal is below his tolerance. All proposals, cancels, modifications, counter-proposals, and acceptances are deemed effective when they are received and recorded by the Liquidnet back-end software, and are not effective until such time. When an acceptance is effective, a trade is executed for the lesser of the two parties’ negotiation quantities.

At present, there is no minimum execution quantity for negotiations.

The proposed minimum execution quantity for negotiations

Should the proposed change be implemented, all negotiations on the Liquidnet Canada ATS will be subject to a minimum execution quantity equal to the lesser of 5,000 shares and 5% of average daily trading volume (ADV) for the stock for the 30 preceding trading days.

The minimum execution quantity for a negotiation does not apply to a continuing negotiation with the same contra after a partial execution of the indication with that contra. In such cases, the minimum execution quantity for negotiations will be the lesser of (i) the proposed minimum execution quantity, i.e., the lesser of 5,000 shares and 5% of the average daily trading volume for the applicable stock for the 30 preceding trading days, and (ii) the remaining unexecuted quantity of the side with the lower remaining unexecuted quantity.

Rationale for the proposed change

As a venue that focuses on block trading, Liquidnet Canada is implementing this change (in conjunction with the proposed minimum match quantity discussed above) in an effort to facilitate negotiations and ensure that Member firms have an opportunity to match and execute significant portions of their indications, as Members seeking to trade large blocks are most interested in executing trades above the minimum levels specified in the proposed change.

B. The Expected Date of Implementation

On or after October 1, 2014.

C. 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 Liquidnet is a venue that focuses on block trading, where the historical average trade quantity falls well-above the proposed minimum execution quantity.

D. Expected impact of the proposed change on Liquidnet compliance with Ontario securities law and the requirements for fair access and maintenance of a fair and orderly markets

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.

E. Whether the proposed change would increase or decrease systemic risk in the Canadian financial system

We foresee no significant impact on systemic risk in the Canadian financial system.

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

Liquidnet Canada consulted with specific Members and customers to validate the proposed change. The proposed change was approved by Liquidnet's Global Operating Committee.

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

The proposed change introducing a minimum execution quantity for negotiations will likely be implemented by Liquidnet in other jurisdictions prior to the expected implementation of this feature in Canada.

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

The proposed change will not require subscribers or vendors to modify their own systems.

3. Restriction on a trader submitting a negotiation proposal below his or her own tolerance

For any match, Liquidnet Canada will prevent a trader from submitting a negotiation proposal below his or her own tolerance for the match (i.e., the tolerance that the trader has set as a condition for matching with a contra-party on the trader's indication).

A. Description

Tolerance and negotiations

As discussed above in connection with the proposed minimum match quantity and minimum execution quantity for negotiation functionality, a trader is matched with a contra only if the working quantity of each trader's indication is at or above the other trader's minimum tolerance quantity (or "tolerance"). A trader's tolerance on an indication represents the minimum working quantity against which the trader is matched and is intended to protect a trader from negotiating with a contra whose working quantity is too small.

When Liquidnet notifies a trader of one or more active contras for a security, the trader can start a negotiation for that security by selecting a contra, specifying a price and negotiation quantity, and submitting a bid or offer (also referred to as a "proposal"). This is also known as "sending an invitation." When a trader sends an invitation in response to an active indication, he is making a firm bid or offer. Liquidnet negotiations are anonymous one-to-one negotiations through which traders submit bids and offers to each other. The first bid or offer in a negotiation is submitted when one trader opens the negotiation room and sends an invitation. Subsequent bids and offers may be submitted as counter-bids or counter-offers in the negotiation. A trader specifies a negotiation quantity each time he submits a proposal. If the negotiation quantity submitted by a trader is below the contra's minimum tolerance quantity, Liquidnet notifies the contra that the proposal is below his tolerance. The contra then has the same options as he would have in response to any other proposal.

At present, a trader is not prevented from submitting a negotiation quantity below his own tolerance.

The proposed change preventing negotiation proposals below own tolerance

Should the proposed change be implemented, a trader will not be able to submit a negotiation quantity that is below the trader's own minimum tolerance for the associated indication (i.e., the tolerance that the trader has set as a condition for matching with a contra-party on the trader's indication).

Rationale for the proposed change

A trader's tolerance is indicative of the minimum quantity that he is willing to trade. Liquidnet believes it is appropriate to apply this minimum quantity to the trader's own proposals.

B. The Expected Date of Implementation

On or after October 1, 2014.

C. 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 would promote more efficient negotiations between traders and larger execution quantities.

D. Expected impact of the proposed change on Liquidnet compliance with Ontario securities law and the requirements for fair access and maintenance of a fair and orderly markets

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.

E. Whether the proposed change would increase or decrease systemic risk in the Canadian financial system

We foresee no significant impact on systemic risk in the Canadian financial system.

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

Liquidnet Canada consulted with specific Members and customers to validate the proposed change. The proposed change was approved by Liquidnet's Global Operating Committee.

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

The proposed change restricting a trader from submitting a negotiation proposal below his or her own tolerance will likely be implemented by Liquidnet in other jurisdictions prior to the expected implementation of this feature in Canada.

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

The proposed change will not require subscribers or vendors to modify their own systems.

4. Elimination of IOIs provided to the back-end software of liquidity partners

Liquidnet Canada will no longer provide to the back-end software of liquidity partners (LPs) a real-time data feed (also referred to as "order notifications", "indications of interest" or "IOIs") notifying the back-end software of Liquidnet algo orders.

A. Description

"Liquidity partners" (LPs) are exchanges, ATSS, MTFs and brokers that transmit immediate-or-cancel (IOC) orders to Liquidnet H2O for execution. LPs do not have access to the Liquidnet desktop application and do not interact with the Liquidnet negotiation system. Currently, when a Member or customer creates an algo order, Liquidnet Canada can provide to the back-end software of the LPs a real-time data feed (also referred to as "order notifications", "indications of interest" or "IOIs") notifying the back-end software of Liquidnet algo orders in Liquidnet H2O. The Liquidnet data feed includes a ticker symbol, side (buy or sell) and quantity (subject to masking at certain quantity levels) with respect to each order notification. These IOIs are not displayed. Liquidnet Canada will no longer provide IOIs to the back-end software of LPs.

B. The Expected Date of Implementation

On or after October 1, 2014.

C. 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 LPs can continue to send IOC orders to Liquidnet H2O for execution.

D. Expected impact of the proposed change on Liquidnet compliance with Ontario securities law and the requirements for fair access and maintenance of a fair and orderly markets

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.

E. Whether the proposed change would increase or decrease systemic risk in the Canadian financial system

We foresee no significant impact on systemic risk in the Canadian financial system.

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

Liquidnet Canada consulted with specific Members and customers to validate the proposed change. The proposed change was approved by Liquidnet's Global Operating Committee.

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

The proposed change eliminating the data feed provided to the back-end software of LPs has previously been implemented by Liquidnet in other jurisdictions.

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

The proposed change will not require subscribers or vendors to modify their own systems.