

13.2 Marketplaces

13.2.1 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 February 1, 2021 to

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West
Toronto, ON M5H 3S8
marketregulation@osc.gov.on.ca

and

Thomas Scully
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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:

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Liquidnet Canada proposes to introduce the following changes to the Liquidnet Canada trading system relating to bond trading functionality:

1. Canadian participants enabled to trade additional emerging market bonds

A. Description of the proposed change

Background

Currently, pursuant to prior exemptions and approvals, Liquidnet Canada, operator of the Liquidnet Canada ATS, and its affiliates, offer services for trading the following categories of bonds:

- US and Canadian high-yield corporate bonds
- US and Canadian investment grade corporate bonds
- European high-yield corporate bonds
- European investment grade corporate bonds
- European convertible bonds.

The US bonds traded through the Liquidnet system include emerging market corporate bonds that Liquidnet settles in the US; the Canadian bonds traded through the Liquidnet system include emerging market corporate bonds that Liquidnet settles in Canada; and the European bonds traded through the Liquidnet system include emerging market corporate bonds that Liquidnet settles in Europe.

Proposed changes

Liquidnet Canada proposes to offer Canadian participants the ability to trade the following additional types of emerging market bonds through the Liquidnet system:

- Emerging market corporate bonds denominated in hard currency (US dollars, Euros, Swiss francs or British pounds)
- Emerging market corporate bonds denominated in local currency
- Emerging market sovereign bonds denominated in hard currency (US dollars, Euros, Swiss francs or British pounds)
- Emerging market sovereign bonds denominated in local currency
- Supranational bonds, local government bonds, and government agency bonds.

Emerging market bonds refer to sovereign and corporate bonds issued by emerging market countries, and corporations within those countries, in either local currency or hard currency (US dollars, Euros, Swiss francs, or British pounds). These countries include, but are not limited to, the Czech Republic, Hungary, Mexico, Poland, South Africa and Turkey.

Emerging market bonds may clear through DTCC, Euroclear, CDS and/or through a local/national settlement system.

B. The expected date of implementation

It is expected that the proposed changes 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 plans to implement the proposed changes to provide Canadian participants with the ability to trade additional types of bonds, while harmonizing the trading functionality available to Canadian participants with that already offered to participants in other jurisdictions, such as the United States and Europe.

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 changes will only provide Canadian participants with the ability to trade additional types of emerging market 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 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 changes will allow all Canadian participants to trade additional emerging market bonds, so there are no apparent fair-access concerns.

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

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 changes or fully interact with the Liquidnet Canada ATS as a result of the proposed change. More particularly, the proposed instrument types are currently being traded by participants in other jurisdictions, e.g., US and Europe, so Liquidnet Canada need only make minor back-end changes in order to implement the proposed change for Canadian participants.

H. Discussion of alternatives

Liquidnet Canada considered whether or not to implement the proposed changes. Since the proposed changes will provide both buy-side Members and dealers with additional access to liquidity in emerging market securities, Liquidnet Canada intends to implement the proposed changes, subject to receipt of regulatory approval.

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

Liquidnet Canada’s foreign affiliates currently offer trading of these additional types of emerging market bonds to participants domiciled in the US and Europe.

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2. Securities dealers enabled to send targeted invitations

A. Description of the proposed change

Background

On or about October 20, 2016, the OSC approved Liquidnet Canada’s proposal to provide Canadian institutional buy-side clients (known as “Members”) with access to targeted invitation functionality for trading bonds.

Currently, targeted invitation functionality allows Members to selectively widen their search for trading opportunities by sending invitations concerning particular bonds or groups of bonds to other Members who previously had the opposite-side indication in the Liquidnet fixed income trading system within a Member-specified look-back period. All Canadian Members who opt-in to participate in this functionality are eligible and enabled to send and receive targeted invitations. Since targeted invitation notifications are objectively limited to Members who have demonstrated contra-interest during a defined look-back period, information leakage, and associated market impact, is minimized.

Highlighted below are important characteristics of a targeted invitation for bonds:

- A targeted invitation for a bond does not represent a firm order
- A targeted invitation is only displayed to one recipient at a time
- If a recipient accepts a targeted invitation, the sender and recipient can engage in the normal negotiation process -- just as they would for any other match in the system.

Currently, only Members can send and receive targeted invitations for bonds; securities dealers (“dealers”) who participate on the fixed income trading system cannot send or receive targeted invitations.

Proposed changes

Liquidnet Canada proposes to also allow dealers to send targeted invitations. By default, a Member will not receive targeted invitations from a dealer unless the Member affirmatively elects to receive dealer targeted invitations. Dealers will still not be permitted to receive targeted invitations.

B. The expected date of implementation

It is expected that the proposed changes 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 plans to implement the proposed change to provide additional trading functionality to dealers while also increasing trading opportunities for buy-side participants.

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 changes will only provide dealer participants with additional trading functionality.

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 changes will result in expanded trading functionality for dealers with both dealers and buy-side institutions being permitted to send targeted invitations, so we respectfully submit that there are no fair-access concerns.

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

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 changes or fully interact with the Liquidnet Canada ATS as a result of the proposed change. More particularly, the proposed functionality is also available to dealers in other jurisdictions, so Liquidnet Canada need only make minor back-end changes in order to implement the proposed change for Canadian dealers.

H. Discussion of alternatives

Liquidnet Canada considered whether or not to implement the proposed changes. Since the proposed changes will increase trading opportunities for both buy-side clients and dealers, Liquidnet Canada intends to implement the proposed changes, subject to receipt of regulatory approval.

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

Liquidnet Canada's foreign affiliates currently offer this feature to dealers in the US and Europe.

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3. Securities dealers configured to interact with Members "as equals"

A. Description of the proposed change

Background

Currently, a securities dealer ("dealer") can participate in the negotiation process for bonds with a Member via an asymmetric protocol by which the dealer can display an indication to Members with matching contra-indications. While Members are notified of such matches with dealers, dealers are only notified of the match if a Member elects to take action on the match by entering a price to start a negotiation.

Proposed changes

Liquidnet proposes to configure all dealers to participate in the existing negotiation functionality in the same manner as Members. For purposes of this disclosure, Liquidnet refers to such dealers as interacting with, or facing, Members “as equals”.

Member configurations for interacting with dealers as equals

A Member may elect to interact with all dealers as equals (first bullet below) or block interaction with some or all dealers as equals (second, third and fourth bullets below). A Member may select from the following options when electing how it wishes to interact with dealers:

- **Member faces all dealers as equal.** The Member negotiates with all dealers in the same manner as it negotiates with other Members. When the Member is matched with a dealer, both the dealer and the Member are notified of the match and may proceed with a negotiation in the same manner as negotiations between two Members. The Member is not notified that it is interacting with a dealer. The asymmetric negotiation protocol between a Member and a dealer described above will not apply to any negotiations between the Member and a dealer.
- **Member provides an exclusion list, and faces all other dealers as equal.** The Member provides Liquidnet with a list of dealers that it has elected not to interact with as equal, and agrees to face all other dealers as equal. The asymmetric negotiation protocol between a Member and a dealer will only apply to negotiations with dealers on the Member’s exclusion list.
- **Member faces only “Gold Tier” dealers as equal.** Liquidnet will provide the Member with a list of “Gold Tier” dealers, and the Member agrees to face only those “Gold Tier” dealers as equal. Liquidnet will classify participating dealers as “Gold Tier” based on consideration of the following factors:
 - the dealer’s expected liquidity and trading volume
 - the dealer’s interest in participating “as equal” in Liquidnet
 - the dealer’s trading strategy/objectives.

Liquidnet will only include a dealer on the “Gold Tier” list if the dealer has consented to such disclosure.

- **Member faces no dealers as equal.** The Member elects not to face any dealers as equal. In this case, the Member will either (i) continue facing all dealers in accordance with the asymmetric negotiation protocol between a Member and a dealer or (ii) not face any dealers at all. Because a dealer may elect to only interact with Members as equals, Members who do not elect to interact with dealers as equals will have no interaction with such a dealer.

In cases where a Member has elected (i) to face only “Gold Tier” dealers as equal or (ii) to not face any dealers as equal, the Member may still elect to face local emerging market liquidity providers as equal, i.e., domestic dealers based in local emerging markets. These local emerging markets include dealers domiciled outside of the US, Canada, UK, France, Germany, Netherlands, Spain, Luxembourg, Portugal, Denmark, Sweden, Norway, Finland, Belgium, Austria, Switzerland, Ireland and Iceland.

Available configuration for interacting with dealers as equal on an indication by indication basis

Regardless of whether, and to what extent, a Member has elected to interact with dealers as equal, upon Member request, Liquidnet may configure a Member with the ability to face (or elect not to face) dealers as equal on an indication by indication basis, as follows:

- If a Member has elected to face all dealers as equal, the Member may elect not to face any dealers as equal for any particular indication
- If a Member has elected not to face any dealers as equal, the Member may elect to face all dealers as equal for any particular indication
- If a Member has elected to face a subset of dealers as equal (via either submitting an exclusion list or agreeing to interact with “Gold Tier” dealers), the Member may elect not to face that subset of dealers as equal for any particular indication.

Dealer configurations for interacting with Members and other dealers

Any dealer may elect to only interact with Members who have chosen to face all dealers (or that particular dealer) as equals. In such case, the dealer will not match with a Member who has chosen not to face that dealer as equal.

If a dealer agrees to interact with all Members (including Members who have not elected to interact with that dealer as equal), the asymmetric negotiation protocol between a Member and a dealer, will apply to any negotiations between the dealer and any Member who has chosen not to interact with the dealer as equal. In such case, when the Member and the dealer match, the dealer will only see the match if the Member chooses to interact with the dealer on that match.

By default, dealers do not face other dealers

A dealer will not face another dealer unless both dealers affirmatively elect to interact with other dealers. The process for negotiation between dealers is the same as the process for negotiation between Members. A dealer can opt-in to this functionality through the settings areas of the Liquidnet desktop application or upon request to its Liquidnet relationship manager.

Fees for securities dealers may include a fee sharing arrangement

Fees for securities dealers are subject to negotiation between Liquidnet and the dealer and may include a fee sharing arrangement.

B. The expected date of implementation

It is expected that the proposed changes 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 plans to implement the proposed change to provide additional trading functionality to dealers while also increasing trading opportunities for buy-side participants.

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 changes will only provide dealer participants with additional trading functionality.

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 changes will result in expanded trading functionality for dealers and permit buy-side institutions to elect to face dealers "as equals" at their option, so we respectfully submit that there are no fair access concerns.

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 changes or fully interact with the Liquidnet Canada ATS as a result of the proposed change. More particularly, the proposed functionality is also available to dealers in other jurisdictions, so Liquidnet Canada need only make minor back-end changes in order to implement the proposed change for Canadian dealers.

H. Discussion of alternatives

Liquidnet Canada considered whether or not to implement the proposed changes. Since the proposed changes has resulted in increased trading opportunities for both buy-side clients and dealers in other markets, Liquidnet Canada intends to implement the proposed changes, subject to receipt of regulatory approval.

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

Liquidnet Canada's foreign affiliates currently offer this feature to participants in the US and Europe.

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4. **Attribute-based invitation functionality**

A. **Description of the proposed change**

Liquidnet Canada plans to offer new "attribute-based invitation" functionality to participants, as described below.

Availability

Members can create attribute-based inquires seeking quotes for bonds with specified attributes from other participants who have shown recent interest in those bonds. These inquiries are referred to as "attribute-based invitations." Upon request by a dealer, Liquidnet, in its sole discretion, may also enable the dealer to send attribute-based invitations. Liquidnet will notify Members prior to enabling any dealers to send attribute-based invitations.

Definition and characteristics of an attribute-based invitation

An attribute-based invitation (ABI) is a request for bids or offers sent to other participants (including dealers, as applicable) that have shown interest in one or more bonds having the specified attributes. By default, all participants are enabled to receive ABIs, but a participant may elect not to receive ABIs by contacting his or her fixed income sales coverage or product support personnel. By default, if a Member has elected to face all, or a subset of, dealers as equal, an ABI created by the Member will be sent to those dealers, unless the Member elects not to send the ABI to dealers. A Member who has elected not to face any dealers as equal may still opt to send a given ABI to dealers.

A participant must specify at least the following attributes when creating an ABI:

- Rating (range or specific)
- Sector (one or more)
- Direction (buy/sell)
- Maturity (range or specific)
- Currency (one or more)
- Expiry time (in minutes) ("expiry time")
- Time for responses to be valid after expiry ("good for time").

At his or her option, a participant may further limit the number of bonds included within the ABI by specifying one or more of the following characteristics:

- Ticker (one or more)
- Minimum yield
- Minimum spread

Prior to sending an ABI, a participant may further edit the list of bonds included in the inquiry, e.g., a participant can remove bonds with a certain ticker, etc., from the ABI. After sending an ABI, a participant may cancel the ABI at any time.

Portfolio-based invitations

An ABI may also include an inquiry based on a list of bonds uploaded by a participant. For example, rather than create an ABI by specifying the various attributes listed above, a participant can upload a list of bonds and generate a request for bids or offers based on that specific list. This is referred to as a "portfolio-based invitation." Unless otherwise noted, the descriptions of ABI functionality herein also apply to portfolio-based invitations.

Execution of portfolio-based invitations at a predefined mid-price

The sender of a portfolio-based invitation may specify that he or she is only interested in trading at a predefined mid-price for the relevant bonds, e.g., the current mid-price as obtained by Liquidnet from a third-party source that estimates the mid-price, such as ICE Data Services. A recipient who receives such an invitation may either agree to trade at the mid-price or reject the invitation. If the recipient agrees to trade at the indicated mid-price, the sender may either accept and execute or decline.

Determining recipients of an attribute-based invitation

A participant will receive an invitation to provide quotes for one or more bonds meeting the specified attributes of an ABI (referred to herein as "relevant bonds") where the participant has demonstrated recent interest, as follows:

- For Member recipients:
 - The Member currently has a contra indication for a relevant bond in the system
 - The Member previously had a contra indication for a relevant bond in the system
 - The Member currently has a relevant bond on its targeted invitation watchlist.
- For dealer recipients:
 - The dealer currently has a contra indication for a relevant bond in the system.

As noted above, a dealer will not receive a request to provide quotes where the dealer previously had a contra indication in the system or currently has the bond on its watchlist.

In the case of a previous indication, a recipient will only be invited to provide a quote for a relevant bond if the recipient had a contra indication for that bond within the recipient's maximum look-back period for receiving targeted invitations. For example, if a recipient restricts his or her look-back period for receipt of targeted invitations to 20 trading days, the recipient will only be invited to provide quotes for relevant bonds based on previous contra indications that he or she had in the system during the previous 20 trading days. Liquidnet may, at its discretion, change this default look-back period.

When a recipient has a relevant bond on its watchlist, the recipient will be notified of the ABI regardless of the direction specified by the sender of the ABI because watchlists do not include direction.

Responses to attribute-based invitations; expiry and good for times

Once the sender submits an ABI, recipients receive a notification alerting them that the sender has requested quotes in relevant bonds. Each recipient is invited to provide quotes only for those bonds where the recipient has shown recent interest, as described above. The notification identifies the relevant bonds where the recipient (i) has a current contra indication, (ii) had a previous contra indication, and (iii) has the bond on its watchlist. The recipient may then input a bid/offer price and size for one or more relevant bonds. A bid or offer sent in response to an ABI is referred to as a "response" and a recipient who responds to an ABI is referred to as a "respondent".

Any participant that receives an ABI notification can send a response on one or more bonds before the expiry time. The respondent may either designate the response as firm, i.e., executable by the sender, or subject to confirmation by the respondent. But the availability of this option to respondents may be limited by the workflow of the sender.

After the end of the expiry time, a respondent cannot amend his or her price or size for any bond during the good for period. But a respondent can cancel his or her response for any bond of an ABI at any time, whether the response is firm or subject to confirmation.

The sender of an ABI can view any response at the time it is sent and take one of the following actions, as applicable, before the expiry time or between the expiry time and the end of the good for time:

- Sender requests execution and, if response was firm, executes a trade
- Sender submits a firm counter to the response
- Sender dismisses or ignores the response.

When a sender requests execution, i.e., in cases where the response was not firm, the respondent may either accept or reject the sender's request for execution. When a sender counters the response, the respondent can either execute or cancel. For the avoidance of doubt, a respondent need not (but can) execute the full size specified by the sender.

Display of responses

For each bond included within an ABI, responses are displayed to the sender in order based on the following criteria:

- **Price or spread.** Responses with a better price or spread are displayed above responses with a worse price or spread, from the perspective of the sender.
- **Size.** For responses with the same price, a larger size is displayed above a smaller size response.
- **Time stamp of response creation.** For responses with the same price and size, a response with an earlier time stamp is displayed above a response with a later time stamp.

A sender can execute against multiple responses for a given bond.

Termination of an attribute-based invitation

An ABI terminates upon the earliest to occur of the following events:

- The sender receives no responses by the expiry time
- The sender has not executed against one or more responses by the good for time
- The sender cancels the ABI.

Information provided to senders of attribute-based invitations

The sender of an ABI only receives information regarding the ABI when recipients elect to respond and provide quotes for relevant bonds. The sender does not receive any other information concerning the recipients of an ABI and/or the specific relevant bonds for which each recipient has been invited to provide quotes.

Monitoring usage of attribute-based invitations

Liquidnet will monitor usage of ABI functionality by participants, including price and size details of responses to ABIs. Liquidnet reserves the right to limit or block usage of ABI functionality by individual traders or participant firms if Liquidnet determines, in its sole discretion, that such usage is not in the best interests of the Liquidnet community.

B. The expected date of implementation

It is expected that the proposed changes 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 plans to implement the proposed change to provide Canadian participants with additional trading functionality and trading opportunities, while harmonizing the trading functionality available to Canadian participants with that already offered to participants in other jurisdictions, such as the United States and Europe.

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 changes will only provide participants with additional trading functionality.

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 changes will allow Member and dealer participants to access the proposed ABI functionality, while still enabling Liquidnet to limit or block usage of ABI functionality by individual traders or participant firms if Liquidnet determines that such usage is not in the best interests of the Liquidnet community. Liquidnet respectfully submits that this level of access to new functionality is appropriate given the different types of participants on the fixed income trading system and consistent with the principles of fair access.

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 changes or fully interact with the Liquidnet Canada ATS as a result of the proposed change. More particularly, the proposed functionality is also available to participants in other jurisdictions, so Liquidnet Canada need only make minor back-end changes in order to implement the proposed change for Canadian participants.

H. Discussion of alternatives

Liquidnet Canada considered whether or not to implement the proposed changes. Since the proposed changes should result in increased trading opportunities for both buy-side clients and dealers, Liquidnet Canada intends to implement the proposed changes, subject to receipt of regulatory approval.

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

Liquidnet Canada’s foreign affiliates currently offer this feature to participants in the US and Europe.

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5. Algo pricing service

A. Description of the proposed change

Liquidnet Canada plans to offer a new “algo pricing” service for bonds. This proposed service will allow Members to request quotes on Canadian, US and European corporate bonds and emerging market bonds from banks and other institutions (referred to herein as “algo pricing providers” or “APs”) who have agreed, upon request, to electronically transmit proprietary quotes for such bonds (referred to herein as “algo pricing”) to Liquidnet Members. Quotes may be generated algorithmically or by a trader at the AP. As described in more detail below, if a Member and an AP both agree to trade at a quoted price, a trade will be executed on the Liquidnet system. Algo pricing quotes will not be available to securities dealers.

Algo pricing service may not be available to all Members or traders at a Member

An AP may elect to provide quotes to all requesting Members or only a subset of Members previously permissioned by the AP. An AP may also elect to permission all, or only a subset, of the traders at a Member firm to receive algo pricing quotes from the AP.

Algo pricing may not be available for all bonds

Algo pricing may not be available for all bonds otherwise eligible for trading on Liquidnet, and the group of bonds for which algo pricing is available may change from time to time. The availability of algo pricing for any given bond is subject to at least one AP agreeing to provide an electronic quote for such bond, following the AP’s receipt of a request for such quote from a Member via Liquidnet.

Algo pricing may not be available for a Member’s full order size

Algo pricing may also not be available for the full order size specified by a Member when requesting a quote on a bond. In such case, an AP may provide a quote for a bond that is good for only a portion of the Member’s order size.

Available configurations for requesting AP quotes

A Member may only receive proprietary quotes from an AP for bonds where the Member currently has an indication in the Liquidnet system. For any such bonds where the Member has an indication in the Liquidnet system, the Member may further elect to be configured to request such quotes from APs in one or more of the following cases (as applicable):

- upon demand by the Member (i.e., manual request)
- automatically, following a failed match

- automatically, following a partial execution of a trade
- automatically, following an attribute-based inquiry where the Member received no responses for a given bond.

An AP may elect to provide quotes to Members in all, or only a subset, of the bulleted circumstances above. Subject to agreement with Liquidnet, an AP may also elect to provide quotes to Members under other scenarios.

As noted above, Members may specify when algo pricing requests on their indications are generated for transmission to APs, and whether such requests are transmitted automatically or only upon manual intervention by the Member. A Member can modify the parameters/criteria that an indication must meet before an algo price request is transmitted to APs via the desktop application. Alternatively, upon request by the Member, fixed income sales personnel can make such modifications on the Member's behalf.

A Member's request for algo pricing will be directed to all APs who have either agreed to provide algo pricing quotes to all Members or have otherwise permissioned the requesting Member to receive algo pricing quotes. If an AP has not permissioned a Member to receive algo pricing quotes, the AP will not receive the Member's algo pricing request.

Members may elect to send algo pricing requests to only a subset of APs

Upon request by a Member, Liquidnet may block the Member's algo pricing requests from being transmitted to one or more APs.

A Member may continue to match and negotiate on an indication while algo pricing quotes are available

As noted above, subject to the preferences of the applicable Member, an algo pricing request may be automatically transmitted to APs after the Member has completed any active negotiations on an indication. A Member may engage in negotiations on an indication after, or at the same time as, a request for algo pricing quotes is transmitted to APs, and during the time when algo pricing quotes for the indication are available for execution by the Member.

Responses to Member requests for algo pricing quotes

Upon receipt of a Member request for algo pricing quotes on one or more bonds, one or more APs may respond by transmitting quotes to Liquidnet via FIX protocol or any other suitable protocol agreed between the AP and Liquidnet. An AP is not required to provide quotes on all (or any) bonds requested by the Member. Liquidnet will set a default expiry time for all AP quotes, but an AP may request to be configured for a different expiry time.

Responding to algo pricing quotes

Upon receipt of AP quotes in one or more bonds, a Member may either request execution or dismiss an AP quote at any time prior to expiration of the quote. In response to a Member request for execution, an AP may confirm, reject, or improve price on the quote. If the AP confirms, a trade will be executed at the agreed-upon price and size. A Member may re-transmit a request for algo pricing following expiration of the initial request for such a quote.

Member and AP identities are disclosed on a pre-trade and post-trade basis

Members who elect to be enabled for the algo pricing service will be identified to all APs, and all APs will be identified to such Members, on both a pre-trade and post-trade basis.

When one or more APs provides an algo pricing quote in response to a Member request, the identity of the AP associated with each quote is provided to the Member. Any requests to an AP for an algo pricing quote will include the identities of both the requesting Member firm and individual trader at the Member firm.

Disclosure of AP identities to Members and prospects

Liquidnet may disclose to all Members and prospects the identities of all APs participating in the algo pricing service, regardless of whether a Member or prospect has elected to participate in the algo pricing service.

Disclosure of information to APs and prospective APs

Liquidnet may disclose to participating APs and prospective APs the number of APs and type of APs (e.g., banks or alternative liquidity providers) participating in the algo pricing service.

Access to algo pricing service statistics

Liquidnet may provide any AP with data concerning the AP's own historical participation statistics and, on an aggregated and anonymized basis, all APs' historical participation statistics via the Liquidnet System in real-time, including:

- Number of different quotes provided by the AP (or all APs combined)
- Number of executed quotes by the AP (or all APs combined)
- Total volume from executed quotes by the AP (or all APs combined)
- Rankings based on the above statistics, as applicable
- Additional statistics as agreed between Liquidnet and the APs.

Fees for algo pricing providers

Fees for algo pricing providers (APs) are subject to negotiation between Liquidnet and the AP and may include a fee sharing arrangement.

B. The expected date of implementation

It is expected that the proposed changes 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 plans to implement the proposed change to provide Canadian Members with additional trading functionality and liquidity in all categories of bonds, while harmonizing the trading functionality available to Canadian Members with that already offered in other jurisdictions, such as the United States.

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 changes will only provide Members with additional trading functionality and liquidity.

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 changes will allow any Member to request algo pricing quotes, so there are no apparent fair-access concerns.

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 changes or fully interact with the Liquidnet Canada ATS as a result of the proposed change. More particularly, the proposed algo pricing service is already in-use in other jurisdictions, e.g., US, so Liquidnet Canada need only make minor back-end changes in order to implement the proposed change for Canadian Members.

H. Discussion of alternatives

Liquidnet Canada considered whether or not to implement the proposed changes. Since the proposed changes will provide Members with additional trading functionality and liquidity, Liquidnet Canada intends to implement the proposed changes, subject to receipt of regulatory approval.

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

Liquidnet Canada's US affiliate currently offers the algo pricing service to Members domiciled in the US.

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