

# Liquidnet Canada Inc. Order Handling & Best Execution Policy

January 4, 2019

## Overview

Liquidnet Canada Inc. (“Liquidnet”) is obligated under IIROC Dealer Member Rule 3300 to put in place policies and procedures around best execution and order handling. In its capacity as a broker, Liquidnet (Broker 038) handles orders for institutional clients for trading of equity instruments. This document is intended to provide our clients with an overview of Liquidnet’s order handling and best execution policy. This document applies for all Liquidnet clients trading equity securities.

## Markets Accessed

Liquidnet is a subscriber to the following Canadian marketplaces:

Marketplace	Protected	ORDER TRANSPARENCY		
		Visible	Hidden	Dark
TSX	Yes	Yes	Yes	No
TSXV	Yes	Yes	Yes	No
TSX Alpha	No	Yes	Yes	No
Nasdaq CXC	Yes	Yes	Yes	No
Nasdaq CX2	Yes	Yes	No	No
Nasdaq CXD	No	No	No	Yes
CSE	Yes	Yes	No	No
Omega	Yes	Yes	No	No
Lynx	No	Yes	No	No
Aequitas Lit Book	Yes <sup>1</sup>	Yes	No	No
Aequitas NEO Book	No <sup>1</sup>	No	No	Yes
Liquidnet <sup>2</sup>	No	No	No	Yes
MatchNow	No	No	No	Yes

<sup>1</sup> Protected for Aequitas-listed securities only.

<sup>2</sup> Liquidnet Canada Inc. also operates a Canadian registered ATS for equity and fixed income securities: the Liquidnet Canada ATS. Liquidnet Canada Inc. is a wholly owned subsidiary of Liquidnet Holdings Inc. Further information about the Liquidnet Canada ATS and Liquidnet Canada can be found on our website [www.liquidnet.com](http://www.liquidnet.com).

As detailed in the table above, different marketplaces may support orders having different levels of transparency, e.g., visible, hidden and/or dark orders. For certain orders for inter-listed equities, the third-party routing provider engaged by Liquidnet (described below) may access markets in the US.

### **Hours of Operation; Market Trading Sessions**

For Canadian listed equities the Liquidnet Canada Inc. trading desk will be available to accept orders between the hours of 08:00 a.m. and 04:00 p.m. Eastern Standard Time (“EST”), Monday through Friday, excluding Canadian statutory holidays. Liquidnet Canada trading desk personnel may work with our third-party service provider (described below) to effect trades after 4pm when necessary.

All orders received for TSX, TSXV or CSE securities will be handled in the following manner during the prescribed market session:

#### **Pre-Open Session**

Orders received from a client during the pre-open hours of the Principal Market will be held until the Principal Market has begun its regular trading session. Unless otherwise notified by Liquidnet, the Principal Market for all securities listed on the Toronto Stock Exchange (TSX), TSX Venture Exchange (TSXV) or Canadian Securities Exchange (CSE), whether the security is trading on other alternate marketplaces, will be the TSX, TSXV and CSE respectively.

#### **Regular Trading Session**

Liquidnet’s algo strategies are configured to achieve best execution for client orders, while meeting applicable regulatory obligations, e.g., the Order Protection Rule.

#### **Post-Market Session**

Liquidnet will accept orders from a customer after the close of the Principal Market if specifically agreed with the customer. Liquidnet holds these orders until the next trading day when the Principal Marketplace begins its regular trading session. However, approved error and accommodation orders may be entered on a marketplace that supports after-hours trading, if required.

### **Best Execution Obligation**

As per IIROC Dealer Member Rule 3300, a Dealer Member must establish, maintain and ensure compliance with written policies and procedures that are reasonably designed to achieve best execution when acting for a client. Best execution means obtaining the most advantageous execution terms reasonably available under the circumstances.



## Factors Considered for Best Execution

To achieve best execution when executing an order for our institutional clients, Liquidnet considers the following factors:

- price;
- the speed of execution;
- the certainty of execution;
- the cost and risk associated with the transaction; and
- any other information deemed relevant to the execution of a client order.

Liquidnet further considers the following factors, which encompass more specific considerations of the aforementioned broad factors for the execution of client orders for listed securities and foreign exchange traded securities:

- considerations taken into account when determining appropriate routing strategies for clients;
- considerations of the fair pricing of Opening Orders when determining where to enter an Opening Order;
- considerations when not all marketplaces are open and available for trading;
- how order and trade information from all appropriate marketplaces, including unprotected marketplaces and foreign organized regulated markets, is taken into account;
- factors related to executing on unprotected marketplaces; and
- factors related to sending orders to a foreign intermediary for execution,

Liquidnet also considers the following “prevailing market conditions” when handling a client order for a listed security or a foreign exchange-traded security that trades on a marketplace in Canada:

- the direction of the market for the security;
- the depth of the posted market;
- the last sale price and the prices and volumes of previous trades;
- the size of the spread; and
- the liquidity of the security.

## Types of Orders

Liquidnet does not make any decisions in connection with manual negotiation by Members through the Liquidnet desktop application. Negotiation activity is dependent upon the execution quality provided through the Liquidnet Canada ATS.

With respect to algo orders created by Members and orders from trading desk customers, Liquidnet uses due diligence to provide for best execution of these orders.



Liquidnet monitors the execution quality provided by the Liquidnet Canada ATS and by external execution venues.

Where a client has provided explicit order handling instructions, Liquidnet Canada will carry them out to the

### **Order Handling by Third-Party Intermediaries**

Liquidnet Canada connects to marketplaces using third party intermediaries. Our primary connectivity is provided via a routing arrangement with a large Canadian dealer, and that Canadian dealer acts as the executing broker. The Canadian dealer's best execution policies and procedures are also applied to Liquidnet Canada's order flow. Liquidnet Canada reviews the best execution and order handling policies of the Canadian dealer (also referred to as the "executing broker") at a minimum annually. Liquidnet Canada's client orders are subject to the order handling and routing practices of the executing broker.

Our secondary connection to the Canadian marketplaces is via a technology service agreement with another large Canadian dealer. Liquidnet Canada acts as the executing broker under this arrangement. As such Liquidnet Canada's best execution policy and procedures apply to this order flow.

In both cases Liquidnet Canada pays the third party a fee for services provided. At present, the significant majority of order flow is handled through the first Canadian dealer (the executing broker).

Liquidnet Canada has entered into an agreement with the executing broker to provide execution services on our behalf. The services provided consist of algorithmic strategies, risk controls, trading desk services and SOR connectivity to (i) Canadian equity marketplaces (for Canadian securities) and US marketplaces (with respect to inter-listed securities). Liquidnet Canada has reviewed the order handling and routing practices of the executing broker and will continue to do so at minimum annually. Liquidnet Canada is satisfied that the order handling and routing practices of the executing broker are reasonably designed to achieve best execution.

When a regulatory or marketplace rule change is proposed that would require an update to the executing broker's policies and procedures around best execution, Liquidnet Canada will review those proposed changes against these documents and contact the executing broker. The review of the executing broker's documents will be against the proposed changes as well as Liquidnet Canada's own policies and procedures to ensure they are complete and appropriate for our clients.

Liquidnet Canada is required to obtain an annual attestation from the executing broker that they have complied with and tested their best execution policies and procedures in accordance with IIROC Dealer Member Rule 3300.



On an ongoing basis, Liquidnet Canada trading personnel monitor the execution quality of orders submitted to the executing broker and follow up with the executing broker personnel if Liquidnet Canada personnel identify execution results that are inconsistent with Liquidnet's best execution obligations. Liquidnet trading personnel further monitor execution quality on an ongoing basis to identify potential changes in algo and routing logic that could improve execution quality and, if appropriate, discuss these potential changes with the executing broker.

### Testing for Best Execution

Review and testing for best execution is conducted on an ongoing basis by Liquidnet Canada's EQS (Execution and Quantitative Services) staff. EQS personnel run TCA on Liquidnet algos every quarter to determine whether the performance of the algo was in line with expectations. Performance may be measured against one or more of the following benchmarks.

- Interval Eligible VWAP
- Previous Close
- Open
- Order Start -15min
- Order Start -5 min
- Last at End
- Order End +1 min
- Order End +5 min
- Order End +15 min
- Order End +30 min
- Order End +60 min
- PWP 20
- Last at Start
- Participation
- Arrival Price

Additional or different benchmarks may be used by EQS during their TCA review. Because each algo order and each trading scenario is different, assessment by EQS staff relies heavily upon the trading and technical experience of EQS staff and the characteristics of the specific orders.

If issues are identified by EQS personnel, EQS personnel will conduct a further review and raise any material concerns to the executing broker and appropriate personnel internally.

The benchmark and assessment criteria above also are used for Liquidnet's quarterly Best Execution Committee meeting. EQS staff will conduct a TCA on each of the algos used in the quarter being reviewed and report their assessments to the Best Execution Committee.

## Best Execution Committee

Liquidnet Canada has a Best Execution Committee that meets at least quarterly, and ad hoc as required, to review best execution factors as well as market structure, regulatory and technology changes, and liquidity sources. Should the Committee not be able to meet, for any reason, within a reasonable time after the quarter end, the Committee will meet as soon as possible. The Committee also meets on an ad hoc basis, or is informed via email, should regulatory, business or technology changes require it.

The Committee meets additionally on an annual basis to discuss Liquidnet's routing methodology and evaluates whether the current methodology continues to be consistent with Liquidnet's overall best execution strategy.

Liquidnet's Best Execution Committee consists of members of Liquidnet Canada Management, Execution and Quantitative Services, and Compliance.

The mandate of the Liquidnet Canada Best Execution Committee is to:

- Ensure best execution policies and procedures remain current in the context of market and regulatory developments
- Review best execution quality criteria and metrics on an ongoing basis and reevaluate quantitative and qualitative valuation criteria as required
- Ensure that order routing criteria are consistent with the goal of optimizing client order execution
- Review order routing logic on a periodic basis to ensure the order routing logic is consistent with optimized client order execution
- Implement updates to execution processes, including order routing logic, as required to optimize client order execution
- Review trading technology to ensure the most appropriate applications are implemented
- Prepare, review and approve Liquidnet Canada's client disclosure relating to best execution and any material updates.

## Routing to ATS Operated by Liquidnet Canada

Liquidnet operates an ATS (the Liquidnet Canada ATS) that executes trades in listed securities and routes order flow to the ATS. Liquidnet addresses this conflict by monitoring the execution performance of the Liquidnet Canada ATS based on equivalent standards as used for monitoring other execution venues.

## Training

All individuals involved with the handling of Liquidnet client orders receive training on best execution at minimum annually, and ad hoc training is provided when appropriate, i.e. regulatory or marketplace changes and or internal policy changes.



## Fees and Rebates

When executing transactions on a marketplace, Liquidnet does not pass on fees or rebates to Members/Clients. All Members/Clients of Liquidnet pay an all-inclusive fee/commission for trading.

## Execution on Foreign Marketplaces

All orders for Canadian and non-Canadian listed equities to be traded on marketplaces outside of Canada may be executed by affiliates of Liquidnet (“Liquidnet Affiliates”) and/or third-party broker dealers. Liquidnet Affiliates and/or third parties may execute such orders as either agent or principal. The fees or commissions charged to us by third parties for such orders may be reported as a net price. Liquidnet may earn a nominal FX spread when trading foreign securities into a Canadian dollar account.

## Algorithmic Trading and Risk Limits

Liquidnet employs risk limits on all orders entered through its systems. Risk limits are applied at a per-order and aggregate level. If you would like further details on these risk controls and limits, please contact your Liquidnet Relationship Manager.

## Document Updates

From time to time updates will be made to this document based on regulatory, market or business changes as they arise and require communication to our Members/clients. Previous versions of this document will be retained by Liquidnet’s Compliance group.

## Request for Additional Order Details

If you have any questions about this policy or wish to request details about your orders and executions, please contact your Relationship Manager at +1 416 594 2470 or at [canadasales@liquidnet.com](mailto:canadasales@liquidnet.com). Additional information in the form of a Global Order Handling Q&A document can be found on Liquidnet’s Member website.

---

### Questions?

[canadasales@liquidnet.com](mailto:canadasales@liquidnet.com)

+1 416 594 2470

[Liquidnet.com](http://Liquidnet.com)

