

# Liquidnet Canada Inc.

## Disclosure of Best Execution Policies

July 2023

### Overview - Best Execution Obligation

Liquidnet Canada Inc. (“Liquidnet Canada” or “LNC”) is obligated under IIROC Dealer Member Rule 3120 and section 3140 to inform customers of our policies for complying with our best execution obligations.

Under IIROC Dealer Member Rules section 3120, Liquidnet Canada “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.”

### Scope of Disclosure

This disclosure applies for:

- All customers of Liquidnet Canada that use Liquidnet Canada’s algos.
- All high-touch customers of Liquidnet Canada.

For orders transmitted by customers directly to the Liquidnet Canada ATS (for example, negotiation orders), Liquidnet does not have discretion in the handling of the order.

This disclosure applies for Canadian and inter-listed equities.

Liquidnet Canada is required to update this disclosure on annual basis. A link to the most recent version of this disclosure is posted on Liquidnet Canada’s public website at [Liquidnet.com/transparency-regulatory](https://www.liquidnet.com/transparency-regulatory).

## Marketplaces

Liquidnet Canada routes customer orders to the following marketplaces:

- Aequitas
- Alpha
- CSE
- Liquidnet
- Lynx
- MatchNOW
- Nasdaq CX2
- Nasdaq CXC
- Nasdaq CXD
- Neo Exchange – Dark Market
- Omega
- TSX
- TSX-V.

Liquidnet Canada operates the Liquidnet Canada ATS. Further information about the Liquidnet Canada ATS and Liquidnet Canada can be found on our website [www.liquidnet.com](http://www.liquidnet.com).

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 Canada (described below) may access markets in the US.

## House of operation; Market Trading Sessions

For Canadian listed equities the Liquidnet Canada trading desk is 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 execution services 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 customer 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 Canada, 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 Canada’s algo strategies are configured to achieve best execution for customer orders, while meeting applicable regulatory obligations.

### Post-Market Session

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

## Factors Considered for Best Execution

To achieve best execution when executing an order for our institutional clients, Liquidnet Canada is required to take into account following factors set forth in IROC Dealer Member Rules section 3121:

- 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.

Under section 3121, Liquidnet Canada is required to further consider 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 is required to consider 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 Canada 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 customers 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 customer has provided explicit order handling instructions, Liquidnet Canada will carry them out to the best of its ability subject to any business, market or regulatory requirements that apply to the order.

## Order Handling by Third-Party Intermediary

Liquidnet Canada connects to marketplaces using a third-party intermediary. Our 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 customer orders are subject to the order handling and routing practices of the executing broker.

Liquidnet Canada pays the executing broker a fee for services provided. 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 a 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 with any concerns. 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 customers.

Liquidnet Canada is required to obtain an annual attestation from the executing broker that the executing broker has complied with and tested its best execution policies and procedures in accordance with IIROC Dealer Member Rule 3123. Liquidnet Canada has reviewed the order handling and routing practices of the executing broker and is satisfied that they are reasonably designed to achieve best execution.

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.

A link to executing broker Policy: [RBC Investor and Treasury Services UK Best Execution Policy \(rbccm.com\)](https://rbccm.com)

## Testing for Best Execution

On a quarterly basis, Liquidnet Canada conducts a detailed review of the execution performance for Liquidnet Canada's most commonly used algos. This review is presented to the Liquidnet Canada Best Execution Committee. Any concerns are identified and follow-up items are agreed. At subsequent meetings, Committee personnel provide updates on these follow-up items. Follow-up items can include proposed updates to an algo configuration to address performance issues.

The ADR group reports on various algo performance metrics including the following:

- Arrival/Spread%
- Interval VWAP/Spread%
- Reversion/Spread%.

Additional or different benchmarks may be used by Liquidnet Canada during this review.

## 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. The Committee also meets on an ad hoc basis, or is informed via email, should regulatory, business or technology changes require it.

Liquidnet Canada's Best Execution Committee consists of members of Liquidnet Canada Management and personnel involved in Algo Design and Research, Routing, Quantitative Analytics, Sales, Product, Technology, Compliance and other applicable functions.

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 customer 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 Canada does not pass on fees or rebates to our customers. Liquidnet Canada can receive a rebate or pay a fee for certain marketplace executions. Liquidnet Canada does not make routing decisions based on whether Liquidnet Canada receives a rebate or pays a fee to the marketplace.

## **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 Trade Coverage.

## 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 customers. 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 Trade Coverage 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.

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**Contact us at:**

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

+1 416 594 2470

