

Liquidnet Asia Limited

Alternative Liquidity Pool Guidelines provided in compliance with Paragraph 19.7 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (“SFC Code of Conduct”)

22 June 2022

The latest version of this Guideline is available on our website:

<https://www.liquidnet.com/transparency-regulatory>

1. Introduction

Liquidnet Asia Limited (“Liquidnet Asia”) operates the alternative liquidity pool (the “Liquidnet Asia System”) for matching of buy and sell indications and orders for equity securities listed in the following Asian markets:

Jurisdiction	Exchange(s)
Hong Kong	Hong Kong Stock Exchange (HKEX)
India	Bombay Stock Exchange (BSE) National Stock Exchange of India (NSE)
Indonesia	Indonesian Stock Exchange (IDX)
Korea	Korea Exchange (KRX)
Malaysia	Bursa Malaysia (KLSE)
Pakistan	Pakistan Stock Exchange (PSX)
Philippines	Philippine Stock Exchange (PSE)
Singapore	Singapore Exchange (SGX)
Taiwan	Taiwan Stock Exchange (TWSE) Taipei Exchange (TPEX)
Thailand	Stock Exchange of Thailand (SET)

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2. User Criteria

Users access the Liquidnet Asia System as a (i) Member; (ii) Trading desk customer; or (iii) Liquidity Partner of Liquidnet Asia or its affiliates. A Member, Trading desk customer or Liquidity Partner of Liquidnet Asia (together referred to as “customers”) must be located or have traders located in Asia (subject to local rules and requirements).

All users that may access the Liquidnet Asia System, wherever located, must be qualified investors as defined in the SFC Code of Conduct. All Liquidity Partners must in addition confirm that any orders they transmit to the Liquidnet Asia System are from qualified investors only and that the Liquidity Partner has adequate processes in place to ensure all such orders passed to the Liquidity Partner are from qualified investors only. All users based in Singapore must be professional investors, accredited investors or institutional investors and only provide access to the Liquidnet Asia System on behalf of professional investors, accredited investment and institutional investors. In addition, a user must meet the following requirements:

(i) Member

A “Member” of Liquidnet Asia must be a buy-side institutional investor or an agency-only securities dealer that is a nationally recognized transition manager and acts as a fiduciary in its transition management business¹. A buy-side firm can nominate an outsourced dealing service provider for buy-side firms to transmit its indications and orders to Liquidnet Asia and manage those indications and orders through the Liquidnet desktop application. The outsourced dealing service provider must identify the buy-side firm on each indication and order sent and the buy-side firm must settle directly with Liquidnet Asia. In addition, the provider must meet other conditions as notified to the provider in writing. A Member must have an order management system (“OMS”) with which Liquidnet Asia can interface. Once the OMS has been integrated, a Member can gain access to the Liquidnet Asia System by transmitting “indications” from their OMS and manage those indications through the Liquidnet desktop application, which is installed at one or more trader desktops at the Member firm. An indication is a non-binding instruction relating to a specific securities symbol. Indications can be transmitted through a periodic sweep, FIX transmission or another method agreed among Liquidnet, the Member and the OMS vendor, as applicable. Liquidnet Asia does not ‘hold’ indications and Members may place orders represented by the indications to other brokers prior to execution in the Liquidnet Asia System.

(ii) Trading Desk Customers

A “Trading desk customer” of Liquidnet Asia must be an institutional client or a securities dealer that is a transition manager. A Trading desk customer that is an

¹ Transition managers who are classified as a Member are permitted access to the Liquidnet desktop application for all their order flow if the majority of their order flow is transition management order flow.



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institutional client can also access the Liquidnet Asia System by sending orders via a third party outsourced trading desk or via an automated router either directly or through a routing broker, in all cases provided that each order must identify the institutional client and the institutional client must settle directly with Liquidnet Asia. A Trading desk customer can gain access to the Liquidnet Asia System by placing firm instructions to the Liquidnet Trading desk via telephone, email or other electronic means, including via FIX. As such customers will not have access to the Liquidnet desktop application, they cannot access the manual negotiation functionality (see below under “Trading in the Liquidnet Asia System”). Orders are cancelled at the end of the day unless specific instructions have been agreed with Liquidnet Asia.

A Member can also be a Trading desk customer when it places instructions to the Liquidnet Trading desk instead of using the Liquidnet desktop application.

(iii) Liquidity Partners

Liquidity Partners are brokers and can access the Liquidnet Asia System by placing principal or agency orders (also referred to by Liquidnet as LP resting orders) to Liquidnet via telephone, email or other electronic means, including via FIX. As Liquidity Partners will not have access to the Liquidnet desktop application, they cannot access the manual negotiation function. Members and Trading desk customers can only interact with LP resting orders when they affirmatively create a Liquidnet algo or Liquidnet only strategy or, in the case of a Member, affirmatively respond to a Broker Block Opportunity (see below under “Accessing and Trading on the Liquidnet Asia System”).

Liquidity Partners cannot make elections pursuant to Liquidnet Transparency Controls (see below under “Use and disclosure of trading information”). Orders are cancelled at the end of the day unless specific instructions have been agreed with Liquidnet Asia.

3. User Restrictions

Each user must comply with all legal and regulatory requirements applicable to the user in connection with its use of Liquidnet Asia’s services, including the following:

- A user must not knowingly prearrange a specific trade with an affiliated customer through the Liquidnet Asia System in violation of applicable law.
- A user must not short sell Hong Kong, Indian, Indonesian, Korean, Malaysian, Pakistani, Philippines, Taiwanese and Thai equities in the Liquidnet Asia System
- Where short sell is permitted, a user must comply with applicable regulatory requirements
- A user must not engage in any activity that constitutes market manipulation
- A user must not engage in any form of market abuse.
- A user should not trade stock that is on a user’s internal restricted list.



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- A user must not commit any act or engage in any course of conduct which is likely to interfere with the operations of a fair and orderly market.
- A customer that routes to Liquidnet Asia involving a service provider or broker, the provider or broker must satisfy Liquidnet Asia that its order handling processes will not cause frustration to, or adversely impact, other Liquidnet Asia participants. In making this determination, Liquidnet Asia will take into consideration a variety of factors, including the provider or broker's automated routing logic and venue prioritization, data usage and disclosure, risk controls and compliance oversight.

Users must not disseminate outside Liquidnet Asia any information about Liquidnet indications and negotiations.

Members are also expected to adhere to the behaviors set down in the Member protocols when interacting with other users through the Liquidnet desktop application. The Member protocols and details of Liquidnet Asia's complaints handling procedures are available in the Member's section of the Liquidnet website.

Liquidity Partners are also expected to adhere to the following guidelines for LP resting orders:

- Maintain average order resting time of one minute or more
- Accurately represent its participation in the Liquidnet Asia System in any disclosures it makes to its customers or other third-parties.

Liquidnet Asia may suspend a user's access to Liquidnet Asia's services or terminate its relationship with any user who violates any legal or regulatory requirement. In addition, Liquidnet Asia can suspend a user's participation in Liquidnet Asia in accordance with Liquidnet Asia's risk management processes, based on credit concerns, regulatory compliance, system and technical issues, non-compliance with usage protocols as made available from time to time, and other factors that Liquidnet determines appropriate, subject to Liquidnet Asia acting in a non-discriminatory manner.

4. Trading and Operational Matters

(i) Routing to other venues

The Liquidnet Asia System only matches indications and orders within the Liquidnet Asia System and does not route orders to any other execution venue. However, customers can give specific instructions for Liquidnet Asia to route orders for execution solely in other execution venues (i.e. opt out of executing in the Liquidnet Asia System) or to execute both in the Liquidnet Asia System as well as in other execution venues, including standing or order-by-order instructions and instructions to automatically send an order after executing in the Liquidnet Asia System. Liquidnet refers to the latter as surge capture orders.



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(ii) Accessing and Trading on the Liquidnet Asia System

For Members, indications and orders are transacted within the Liquidnet Asia System by accessing the manual negotiation functionality or the auto-negotiation functionality or by responding to a Broker Block Opportunity. For Trading desk customers, orders are transacted within the Liquidnet Asia System by accessing the auto-negotiation functionality. Liquidity Partners can also give notification of a Broker Block Opportunity to Members when accessing the auto-negotiation functionality. Liquidity Partners are subject to limitations on how their orders can interact with Members and Trading desk customers as set out in this section. When neither side of a match uses the manual negotiation functionality, orders are automatically transacted. Liquidnet refers to such orders and transactions as H2O orders and H2O transactions.

(a) Manual negotiation functionality

The manual negotiation functionality is only available through the Liquidnet desktop application and hence only available to Members. All Asian equities can be accessed using the manual negotiation functionality. Members can elect not to participate in the negotiation functionality by instructing Liquidnet Asia not to transmit the Member's indications to Liquidnet's indication matching engine. Members using the manual negotiation functionality cannot match directly with orders from Liquidity Partners but can elect to receive notice of Broker Block Opportunity (see below under "Broker Block Opportunity").

A trader at a Member firm can choose whether to make an indication available to match or outside through the Liquidnet desktop application. An indication that is set outside or has a price limit outside the reference price or that is below the minimum quantity set by Liquidnet Asia is ineligible for matching in the Liquidnet Asia System.

A trader that has set an indication to available to match² will be matched if there is a matching indication that is within the 'tolerance' and limit price set by the trader. The tolerance is the minimum percentage of the Member's working quantity based on number of shares and/or percentage of average daily trading volume (based on 30 prior trading days) and is intended to protect a user from negotiating with an opposite side (the "contra") whose working quantity is too small.

Liquidnet negotiations are anonymous one-to-one negotiations. A trader will know that the contra has a tolerance meeting his or her minimum but will not

² From May 2022, active and passive indication status have been consolidated into a single "available to match" status, and all indications received by Liquidnet are, by default, available to match with other available contras in the pool (unless otherwise configured for a Member/trader). This change will be available to users on desktop application versions 5.29.110 or higher.



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otherwise know the quantity of shares the contra can trade.

A trader that has a match may send an invitation to the contra to negotiate. The trader can only send an invitation on a match to one contra at a time. The invitation must specify a price and negotiation quantity and is a firm order. The contra can respond by accepting the proposal or invitation or decline to negotiate. If the contra accepts the invite and opens the negotiation room, he can respond by accepting the proposal, changing the quantity (above the set tolerance) and accepting, submitting a counter-offer (except for mid-peg invitations), allow the proposal to expire by not responding within the configured time or end the negotiation.

After the first invitation, subsequent bids and offers may be submitted as counter-bids or counter-offers in the negotiation and the proposal can be cancelled before a transaction takes place. Traders can also send messages to each other during negotiation using the chat function on the Liquidnet desktop application.

There are two types of negotiation proposals: priced and mid-peg. A priced proposal has an associated price displayed to the contra and can only be transacted at the indicated price. A mid-peg proposal does not have an associated price. A mid-peg proposal, if accepted, is transacted at the mid-price at the time the proposal is accepted.

Prior to starting a negotiation, submitting a proposal, or taking any other action in a negotiation, a trader should confirm that the price and quantity and other information relating to that action accurately reflect the trader's and the Member's intended action. In particular, the trader should confirm that the proposal price is within any limit price set by the Member and within any price and quantity limits set in the Member's OMS. Traders should be aware that Liquidnet Asia does not update available quantity or working quantity for changes in OMS order quantity once a negotiation has commenced.

Members can choose from various default and configuration settings relating to matches and negotiations in the Liquidnet Asia System, including:

- Price alerts for indications set outside
- The reference price for indications with limit price
- Minimum and maximum tolerance settings
- Mid-peg price constraints

These settings are initially discussed and agreed with the Member as part of the process for integrating the Member's OMS to the Liquidnet Asia System. Further



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information on default and configuration settings relating to Member integration and the Liquidnet desktop application, including list management of indications, are set out in the Liquidnet Trading Rules. Members should contact their Relationship Manager for full details of configuration and default settings.

(b) Auto-negotiation functionality

The auto-negotiation functionality is available to Members and Trading desk customers for all Asian equities. The auto-negotiation functionality is available to Liquidity Partners for all markets except India, Korea and Taiwan. Members can access this functionality by selecting a Liquidnet only strategy³, or a Liquidnet trading algorithm from the Liquidnet desktop application. A Member can also designate and configure criteria for Liquidnet Asia to automate the creation of an order from an indication transmitted by the Member to Liquidnet. A Member using the Liquidnet desktop application also has the option to use the auto-negotiation functionality when he has a match on his indication instead of manually negotiating with the contra.

Trading desk customers and Liquidity Partners can access the auto-negotiation function by submitting orders to the Liquidnet Trading desk by telephone, email, FIX or other electronic means (including via their OMS). A Trading desk customer or Liquidity Partner can set up a FIX connection to access a Liquidnet only strategy³ or a Liquidnet trading algorithm directly from their OMS. Otherwise, orders submitted to the Liquidnet Trading desk are routed manually by Liquidnet Trading desk personnel to the Liquidnet Asia System and/or external venues in accordance with the customer's instructions.

A Liquidnet only strategy sends an order to the Liquidnet Asia System based on the stated quantity, and if specified by the user, limit price and minimum quantity. A user can choose a Liquidnet only strategy to only send orders to interact with other orders using the auto-negotiation functionality. Such orders will not match with a manual contra.

A Liquidnet trading algorithm that can interact with the Liquidnet Asia system does so by sending a conditional order to the Liquidnet Asia System while simultaneously sending firm orders to external venues in accordance with the design and parameters for that trading algorithm⁴. Users can specify the quantity, limit price, minimum quantity and such other parameters as

³ Liquidnet only strategies route firm or conditional orders only to the Liquidnet Asia System and do not utilize traditional algorithm functionalities, but are sometimes referred to as trading algorithms because they can be created by Members and Trading desk customers through the Liquidnet desktop application or an OMS or FIX connection in the same way as traditional algorithms.

⁴ Liquidnet Asia also provides algorithms that can route to Liquidnet affiliates for accessing crossing systems operated by those affiliates



applicable for the trading algorithm. Orders in external venues will be cancelled before a conditional order in the Liquidnet Asia System is executed.

Subject to limitations on LP resting orders, an order accessing the auto-negotiation functionality will be eligible for matching in the Liquidnet Asia System if the limit price (where specified) is within the current mid-price. If there is a match with a manual contra, the Liquidnet software, known as the Liquidnet negotiation contra or 'LNC', will send a 'firm contra' order to the manual contra⁵. Upon receipt of notification of a firm contra order, the manual contra can create a firm contra accept. A firm contra accept cannot be canceled by the Member during a set time-in-force period determined by Liquidnet. The firm contra order can only be executed at mid-price or better and within any price constraint set by the user. A Trading desk customer can elect not to interact with a manual contra. Where both sides of a matched indication is auto-negotiated, the match is automatically transacted at the mid-price.

A LP resting order is only eligible for matching and executing in the Liquidnet Asia System against an order from a contra using a Liquidnet only strategy or a Liquidnet trading algorithm. In the case of a Member or Trading desk customer contra using a Liquidnet only strategy, a LP resting order will only execute with the contra order if the contra has elected through Liquidnet Transparency Controls to interact with orders from Liquidity Partners.

(c) Broker Block opportunity

A Member with an opposite-side indication to a LP resting order can receive notification of the LP resting order as a Broker Block Opportunity. Notification is only provided to a Member when the mid-price is at or within any limit price specified by the Liquidity Partner. If a notification is provided and the mid-price subsequently moves outside the limit price, this is indicated in the notification to the Member.

Upon receipt of notification of a Broker Block Opportunity, a Member can create a broker block accept. A broker block accept cannot be canceled by the Member during a set time-in-force period determined by Liquidnet. The broker block accept will not execute against the Broker Block Opportunity if the Liquidity Partner order has been previously canceled or executed in full.

Execution of a broker block accept is for the lesser of the quantity of the Member's broker block accept and the Liquidity Partner order, subject to

⁵ A manual contra with an older version of the Liquidnet desktop application will see the match as a matching indication and the LNC will negotiate with or accept an invitation from the manual contra for execution at the mid-price (or better).



meeting the tolerance of the Member's indication and the minimum execution size for the applicable region.

Members elect through Liquidnet Transparency Controls whether to receive notice of Broker Block Opportunities.

(d) Targeted Invitation functionality

There are two types of targeted invitations: (1) manual invitations and (2) automated targeted invitations. The targeted invitation functionality complements the Liquidnet Asia System but does not change the way that indications and orders are matched and executed in the system. This functionality allows users to anonymously send an invitation to qualifying Members and Qualifying Trading desk customers who have recent activity in a relevant stock with the intention that recipients make available an opposite-side order for matching on the Liquidnet Asia System. A targeted invitation has a notification component and represents a firm order in the Liquidnet Asia System and any matches are negotiated and executed using the auto-negotiation functionality. The targeted functionality is available for all Asian equities.

The sender of a targeted invitation receives certain information regarding the actions of the recipients, as described in Schedule B to this notice.

Automated Targeted invitations are an optional parameter or configuration associated with the auto-negotiation functionality.

Only Qualifying Members and Qualifying Trading desk customer, as described in Schedule B, can receive targeted invitations. All Members can send manual targeted invitations and all users can send automated targeted invitations. Users other than Qualifying Members and Qualifying Trading desk customers cannot receive targeted invitations.

Details of the targeted invitation functionality are set out in Schedule B to this document.

(e) VWAP Cross functionality⁶

The VWAP Cross functionality is designed to allow customers to cross orders prior to market open at VWAP and agreed execution quantity. This functionality is available to Members and Trading desk customers during the VWAP Cross Matching Period. A Member can access the VWAP Cross functionality by

⁶ Commencing on or after 14 March 2022



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creating a VWAP Cross order from the Liquidnet desktop application. A Member can also create a VWAP Cross order from an indication through the match pop-up in the Liquidnet desktop application when the Member has a match on its indication with a contra. A Trading desk customer can access the VWAP Cross functionality by selecting the appropriate order ticket or order ticket configuration from their OMS⁷ or otherwise instructing the Liquidnet Trading desk by telephone, email, FIX or other electronic means. VWAP Cross orders are matched in the same manner as orders sent using the auto-negotiation functionality.

VWAP Cross orders matched in the Liquidnet Asia System are not immediately executed and instead, the buyer and seller agree to execute the matched buy and sell orders after the market close at the Execution Quantity at the Execution Price unless a Break Event occurs. If there is a Break Event, the Break Event Execution Quantity and Break Event Execution Price will apply as set out in the table below. After the VWAP Cross orders are matched and before execution, Liquidnet will lock a placement for Members or send an indicative fill price immediately to the buyer and seller for placement purpose only.

Available Market	Hong Kong Equities
VWAP Cross Matching Period (HKT)	Start: 08:00 a.m. End: 09:10 a.m. During days when HKEX is open for trading, excluding designated market event days, including, but not limited to, future expiry days and index rebalancing days, or such other days as notified in advance from time to time.
Relevant Exchange	HKEX
Transacting a VWAP Cross	A VWAP Cross indication or order, once crossed in the Liquidnet system, results in a binding contract, which cannot be cancelled, between counterparties whereby they agree to execute a trade either (a) at the Execution Price and Execution Quantity after market close of the relevant exchange; or (b) if there is a Break Event, at the Break Event Execution Price and Break Event Execution Quantity at the Break Event Execution Time.
Indicative fill price	For client FIX orders via the Liquidnet Trading desk, Liquidnet will send fills for the crossed orders using the previous trading day's closing price.

⁷ This feature will be subject to the availability of the OMS vendor.



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(for placement purpose only)	
Execution Price*	On-market full-day VWAP (excluding dark and off-market volume). If there is no on-market execution for a stock (i.e., no VWAP available), no trade will be done on any VWAP cross orders.
Execution Quantity*	Quantity as crossed in the Liquidnet system.
Execution Time*	After market close of the relevant exchange upon system calculation of the full-day VWAP price.
Break Event	1. an intraday price movement of more than 5% away from the previous close price of the stock provided the price move occurs at least 30 minutes before the end of continuous trading on the relevant exchange; or 2. stock is subject to intraday trading halt by the relevant exchange
Break Event Execution Price	Interval VWAP at the time of the Break Event.
Break Event Execution Quantity#	$= (\text{Crossed})\text{Execution Quantity} \times \frac{\text{Daily Accumulated Average Volume at Break Event Execution Time}}{\text{Full Day Average Volume}}$ <p>where volumes are based on historical volume curves for the individual stock. Please contact your Liquidnet coverage for more details.</p> <p>If a stock has less than 20-day historical trading, the Break Event Execution Quantity:</p> $= (\text{Crossed})\text{Execution Quantity} \times \frac{\text{Duration of trading of that stock in seconds up to Break Event Execution Time}}{\text{Duration in seconds of trading day}}$ <p>where the duration of the trading day refers to the regular duration of trading including any auction periods and the trading sessions on the relevant exchange for the relevant day. For example, if the Break Event occurs on a day where the exchange does not have an afternoon session, the duration of the trading day will not include the afternoon session.</p>
Break Event Execution Time	Time of the Break Event
Trade Reporting	If there is no Break Event, the Liquidnet system will report the VWAP Cross trade to HKEX on T+1. If there is a break event, the crossed orders will be manually executed and reported to HKEX intraday via Liquidnet's third party execution broker.

*Except for occurrence of Break Event



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(f) Table of market access to the Liquidnet Asia System

Equities	Functionality				
	Manual negotiation (Members)	Auto-negotiation (Members and Trading desk customers)	LP resting orders and Broker Block Opportunities	Targeted Invitation (Members and Trading desk customers)	VWAP Cross
Hong Kong	✓	✓	✓	✓	✓
India	✓	●	X	✓	X
Indonesia	✓	✓	✓	✓	X
Korea	✓	●	X	✓	X
Malaysia	✓	●	●	✓	X
Pakistan	✓	●	●	✓	X
Philippines	✓	✓	✓	✓	X
Singapore	✓	✓	✓	✓	X
Taiwan	✓	●	X	✓	X
Thailand	✓	✓	✓	✓	X

●Restricted to Liquidnet only strategies



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(g) Table of interaction for different functionalities

		Contra flow		
		Member Indications	Member and Trading desk customers auto-negotiation orders	Liquidity partner orders
Functionality	Member Indications	- Manual negotiations	- Manual negotiations	- Broker block accept of Broker Block Opportunities*
	Member and Trading desk customer auto-negotiation	- Liquidnet only strategies [^] - Liquidnet algos - Manual Targeted Invitations	- Liquidnet only strategies - Liquidnet algos - Manual Targeted Invitations - VWAP Cross	Liquidnet only strategies and Liquidnet algos*
	Liquidity Partner orders	- Notification of Broker Block Opportunities**	- Auto-negotiation LP resting orders*	- Auto-negotiation of LP resting orders

* Requires Member/Trading desk customer opt-in for Liquidnet only strategies

[^] Users can choose not to interact with Member indications

(iii) Source of Liquidity

There are two categories of liquidity in the Liquidnet Asia System, being (i) indications and orders from Members and Trading desk customers of Liquidnet Asia or its affiliates; and (ii) LP resting orders from Liquidity Partners of Liquidnet Asia or its affiliates. All liquidity within the same category share the same priority. The Liquidnet group does not engage in proprietary trading and there are no proprietary orders in the Liquidnet Asia System⁸.

(iv) Priority

Where a limit price is specified for an indication or order, the price must be at or within the current bid and ask to be eligible for matching in the Liquidnet Asia System.

(a) Prioritization of categories and functionalities

Where there are multiple same-side eligible indications or orders for the same security, priority will depend on whether the indication or order uses the manual negotiation function or the auto-negotiation function or is a Broker Block Opportunity.

⁸ In cases of error or accommodation, Liquidnet Asia may act as principal for settlement purposes.



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- (i) **Auto-negotiation.** An order transmitted to the Liquidnet Asia system using the auto-negotiation function (the transmitted order) will execute first against an eligible contra-side order using the auto-negotiation function before matching with a manual contra, following the below priority:
1. An order from a Member or Trading desk customer that is resting in the Liquidnet Asia system as of the time of receipt of the transmitted order
 2. A LP resting order that is resting in the Liquidnet Asia system as of the time of receipt of the transmitted order
- (ii) **Manual negotiation.** An indication eligible for matching in the Liquidnet Asia system will match against all eligible contra-side indications and orders. Liquidnet lists available contras based on time priority (when the contra indication was first made available to match), except that a LNC order (representing one or more auto-negotiated orders) will be listed above other contras. An invitation will by default be sent to the contra that is listed first, but in the case of a manual negotiation using the negotiation room, the trader can override the default and select to which contra to send the invitation. These general priority rules for manual negotiation are subject to the following exceptions:
1. **Exception where sender cannot execute against a contra.** Where a trader submits a negotiation proposal from a match pop-up, if the Liquidnet Asia System determines that a higher priority contra is unable to execute against the sender due to the contra's price or size constraint, then the Liquidnet Trading System can send the invitation to a lower priority contra, to avoid sending an invitation to a recipient who cannot execute against the invitation.
 2. **Exception where previous invitation missed or declined by trader.** If a trader's mid-peg invitation is above a contra's tolerance and missed or declined by the contra (or expires), (i) that trader takes priority if the contra subsequently sends a proposal within 30 seconds after the contra missed or declined the invitation, and (ii) a trader at another Member firm cannot submit a proposal to the contra during that 30-second period. The 30-second period is reduced to 10 seconds when the contra declined the invitation from the trader and specified the reason as "Explicit Price Only."



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- (iii) **Broker Block Opportunity.** A Broker Block Opportunity will only be notified to a Member with an opposite side indication when the Member's indication is not matched with any contra-side indication or order.

(b) Multiple same-side orders within the same prioritization category

Except for India equities, the following applies where there are multiple same-side orders for the same security within the same prioritization category and the Liquidnet Asia system then receives a contra-order:

- (i) Where two or more orders on the same-side from Members and Trading desk customers are automatically negotiated, Liquidnet will aggregate the orders and execute the two (or more) same sided orders equally (for each order, up to its quantity and subject to any specified minimum quantity).
- (ii) Where two or more VWAP Cross orders on the same-side from Members and Trading desk customers are crossed with a contra VWAP Cross order, Liquidnet will aggregate the orders and execute the two (or more) same sided orders equally (for each order, up to its quantity and subject to any specified minimum quantity).
- (iii) Where there are two or more LP resting orders, Liquidnet will aggregate the LP resting orders and execute the two (or more) same sided orders equally (for each order, up to its quantity and subject to any specified minimum quantity).
- (iv) A notification of a Broker Block Opportunity can represent more than one Liquidity Partner. If a Member submits a broker block accept, the order can execute against any opposite side auto-negotiation order, subject to the priority rules set out in this section.

For Indian equities, for each of the above three scenarios, executions of the same-side orders within the same prioritization category are based on time priority.

(v) Executions in the Liquidnet Asia System

Matched buy and sell orders transacted in the Liquidnet Asia System are executed as follows:

- For Indonesian, Korean, Malaysian, Pakistan, Philippine, Singaporean, Taiwanese and Thai equities, Liquidnet Asia transmits the matched buy and sell orders to a local broker for execution and execution is subject to the rules and requirements of the local exchange or other venue on which the local broker executes the



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trade.

- For Indian equities, Liquidnet Asia routes the matched buy and sell orders to its local broker in India who sends the orders as a buy limit order and a sell limit order to the electronic limit order book of a local exchange for execution. Where there are existing orders on the electronic limit order book of the local exchange, with higher price or time priority than the matched orders submitted by Liquidnet Asia's local broker, one side of the matched orders will execute in whole or in part against the open orders on the exchange, and the other side of the matched orders will be returned partially executed or wholly unfilled. The amount of unfilled order will depend on the volume of higher priority orders on the exchange electronic limit order book at the times the orders are submitted by Liquidnet Asia's local broker for execution.
- For Hong Kong equities, Liquidnet Asia executes the matched buy and sell orders in the Liquidnet Asia System and reports the trade to HKEX in accordance with the rules and requirements of HKEX.
- For VWAP Cross orders, where there is a Break Event, the crossed orders will be manually executed and trade reported by a third-party broker.

(vi) Execution Pricing

Except for Indian equities, the executed price of a transaction conducted in the Liquidnet Asia System is the negotiated price for a transaction as conducted by Members if both sides are using the manual negotiation functionality and at the mid-price if both sides are using the auto-negotiated functionality. Where only one side is using the auto-negotiated functionality, the LNC can only accept a proposal at the mid-price (or better). In all cases, the execution price is subject to price restrictions under local rules and regulations.

For Broker Block Opportunities, the execution price of a broker block accept is the mid-price at the time of transaction except that the price cannot be worse for the Member than the mid-price as of the time the Member submits the broker block accept.

For Indian equities, the executed price of a transaction negotiated in the Liquidnet Asia System is the price of each trade as executed on the local exchange, which will either be the price as transacted in the Liquidnet Asia System or an improved price.

A Member will be alerted by a message in the Liquidnet desktop application if the transacted price is more than 2% away from the current market price (where available) and the trader at the Member firm will need to confirm to proceed.



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For VWAP Cross, the execution price will be based on the on-market full-day VWAP (excluding dark and off-market trades)⁹. In the event there is no on-market execution for a stock (i.e. no VWAP available), no trade will be done on any VWAP Cross orders for that particular stock.

(vii) Restriction on trading certain stocks

The following equities are restricted from trading on the Liquidnet Asia System: Korean stocks that are subject to foreign investor restrictions; Thai stocks other than Foreign Shares and Non-Voting Deliverable Receipts; Indian stocks that are on the red flag or breach list or listed as illiquid securities by, or in the “Trade for Trade Segment” of, BSE or NSE; Singapore stocks that have traded 10% or more of market volume in the Liquidnet Asia System during two of the preceding six calendar months; and Taiwanese stocks that are subject to pre-delivery and pre-funding requirements or where stock or fund checks are required, Conversion type stocks, Disposal type stocks and Taiwanese REITS, ETFs and PRFs. Other stocks may be restricted from time to time based on restrictions imposed by our local execution or trade reporting brokers.

(viii) Order Cancellation

Once orders are executed in the Liquidnet Asia System, they cannot be canceled unless the execution was erroneous or both parties to the trade agree to the cancellation, in all cases subject to local rules and regulations. If cancellation is not possible, Liquidnet Asia may accommodate the trade in accordance with its accommodation policy. Any decision to accommodate a trade is at the sole discretion of Liquidnet Asia.

In the case of VWAP Cross, orders can only be cancelled before it crosses in the Liquidnet Asia System. Once successfully crossed, the matched orders result in a binding contract and will execute either after market close at the full-day VWAP price at the matched quantity or in accordance with the Break Event process.

(ix) Commissions

Liquidnet Asia’s agency commission structure is based on the type of product/function used by the customer and some products/functions may involve higher fees for executions conducted in the Liquidnet Asia System.

(x) Activities Reports

⁹ For details on the full day VWAP calculation, please refer to [Trading and Operational matters section \(e\) VWAP Cross](#).



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Upon a customer request, Liquidnet Asia can provide various transaction analysis and match reports concerning the customer's matches and executions that take place in the Liquidnet Asia System.

(xi) Other trading and operational matters

See Schedule A for details of other operational matters.

5. Risks disclosures and internal control procedures

(i) Indications are non-binding; indications and orders may not find matches in the Liquidnet Asia System

Indications in equities from Members are non-binding and matching with a contra using the manual negotiation functionality may not result in an execution. Liquidnet Asia monitors for system usage and monitors for patterns of conduct by customers that could cause frustration for other users or may amount to abusive trading behavior. Liquidnet Asia Sales personnel also monitor matches in the Liquidnet Asia System in real-time to facilitate negotiations, monitor matching activities and respond to issues. Liquidnet Trading desk personnel monitor trading conducted by users of Liquidnet only strategies and Liquidnet trading algorithms.

(ii) System outages

Technical or other issues may from time to time impact the Liquidnet Asia System such that it is unable to correctly receive indications from our Members' OMS or match indications and orders that have been received or otherwise interrupt fair and orderly trading in the Liquidnet Asia System. Where such system issues materially affect the efficiency or proper functioning of the Liquidnet Asia System, Liquidnet Asia will halt matching on the Liquidnet Asia System for the affected equities or take such other measures as considered reasonable in the circumstances. In any such case, if Liquidnet Asia is not able to resolve the system issue within a reasonable time, Liquidnet Asia will notify affected customers of the system issue and reject firm orders. Liquidnet will notify affected customers when the system issue is resolved and trading on the Liquidnet Asia System is available. Indications are non-binding and Members retain the ability to trade their orders with other brokers.

(iii) Use and disclosure of trading information

Liquidnet Asia has controls in place to prevent the misuse of trading information by the Liquidnet group and its personnel and to manage conflict of interest in relation to trading information. Members and Trading desk customers can also make elections on the disclosure of their execution data using a web-based system known as



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Liquidnet Transparency Control. Members and Trading desk customers can use the tool to make elections relating to products and services that are complementary to Liquidnet's core offering. Further details on the use and disclosure of trading information are set out in the Liquidnet Order Handling Q and A Document, which is available in the Member's section of the Liquidnet website.

Members and Trading desk customers can also use Liquidnet Transparency Control or contact their coverage to elect when executions conducted by Liquidnet Asia are disclosed (trading parties are never disclose). By default, executions conducted by Liquidnet Asia will be disclosed at the earliest setting made available per market. If the earliest setting made available is at End of Day, disclosure will be made on or after the end of the respective market's close.

(iv) Use of market data

Market data is provided to Liquidnet by Thompson Reuters, which sources the market data from the primary exchange (NSE only for dual-listed Indian equities). Liquidnet provides market data on highest bid and lowest ask and last sale in the Liquidnet desktop application. Market data is provided to traders at Member firms to assist with the negotiation process. Liquidnet Asia allows traders to use this market data by clicking on the bid, mid, ask or last market price or the last submitted proposal. A user can manually change this actual value price prior to submitting a proposal.

Members should have an independent source of market data at the time a proposal or order is transmitted or modified to verify or validate market data provided through the Liquidnet trading application.

(v) Settlement and Counterparty

Trades are settled in accordance with normal exchange procedures and settlement calendar as applicable for the local market. Failures will follow the applicable rules of the local market. Settlement is between a Liquidnet account at BNP Paribas Securities Services and the account(s) designated by the customer, except as follows:

- Settlement of Indian equities is between Morgan Stanley India Company Private Ltd and the account(s) designated by the customer
- Settlement of Korean equities is between Morgan Stanley & Co, International plc, Seoul Branch and the account(s) designated by the customer
- Settlement of Taiwanese equities is between Morgan Stanley Taiwan Limited and the account(s) designated by the customer

6. Access to trading information



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Title	Department	Reason
Head of Asia Pacific	APAC Management	Management and supervision
Chief Operating Officer	APAC Management	Management and supervision
Relationship Manager	APAC Sales	Provide trading support, monitoring and responding to issues
Business Development and Sales	APAC Sales	Provide trading support and managing customer relationship
Sales Analytics	APAC Sales	Preparation of post-trade reports to provide to relevant functions and regulators
Traders	APAC Execution and Quantitative Services	Provide trading support and monitoring for orders placed through the trading desk
Liquidity Partnerships Manager	APAC Execution and Quantitative Services	Manage Liquidity Partnership relationships including post-trade monitoring
Quantitative Analyst	APAC Execution and Quantitative Services	Support post-trade analytics and provide decision-support analytics
Legal officers / Compliance officers	APAC Legal and Compliance	Monitoring and reviewing transactions; preparing regulatory reports
Finance	APAC Finance	Prepare financial and regulatory reports and accounts;
Trade Support and Trading desk Support	APAC Trade Support	Handle account set-up, trade allocations and trade settlement
Product Support and Implementation	APAC Product Support	Technical support and troubleshoot trading issues
Algorithmic Services Analyst	Execution and Quantitative Services	Monitor and review algo performance
Algorithmic Product Specialist	Execution and Quantitative Services	Design, develop, support and review algorithms and provision and analysis of related data
Algorithmic Sales and Business Development	Execution and Quantitative Services	Provide algorithmic trading support and managing customer relationship
Trading Analytics	Trading Analytics	Global post-trading reporting and statistics
Software Engineer	Technology	Ad hoc access as necessary to provide design, development and technical support
Systems administrator	Enterprise Technology Support	Ad hoc access as necessary to provide design, development and technical support
Business Intelligence	Enterprise Technology Support	Develop reports for use by internal functions
Database administrator	Enterprise Technology Support	Ad hoc access as necessary to provide design, development and technical support
Products Analyst	Products	Using post-trade data for product development and enhancements



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Relationship Managers in the US and EMEA Sales departments are able to access trading information relating to customers based in the localities they cover.

The counterparts of those persons listed above, and who are located in the US and EMEA departments corresponding to the APAC departments listed above, are also able to access trading information on an as needed basis to provide “follow-the-sun” coverage, for the purpose of providing back-up or emergency technical support, and to provide technology design and development support.

Further details on access to information by Liquidnet employees are set out in the Liquidnet Order Handling Q + A Document, which is available in the Member's section of the Liquidnet website.



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Schedule A – Other Trading and Operational Matters

Equities	Liquidnet trading hours (HK time)	Local execution/trade reporting broker ¹⁰	Execution or Trade reporting venue	Short selling	Minimum size [^]
Hong Kong	08:00 to 17:00	Liquidnet Asia	HKEX	Not permitted	Default
India	11:30 to 17:58	Morgan Stanley India Company Private Ltd ¹¹	BSE and/or NSE	Not permitted	None
Indonesia	09:00 to 17:00	PT Morgan Stanley Securities Indonesia or PT CGS-CIMB Sekuritas Indonesia	IDX	Not permitted	Default
Korea	07:00 to 14:45	Morgan Stanley & Co, International plc, Seoul Branch ⁸	KRX	Not permitted	KRW 100million
Malaysia	09:00 to 16:55	Credit Suisse Securities Malaysia Sdn Bhd or CIMB Investment Bank Berhad	KLSE	Not permitted	Default
Pakistan	11:30 to 18:00	Intermarket Securities (Pvt.) Limited	PSX	Not permitted	Default
Philippines	08:00 to 16:30	Credit Suisse Securities (Philippines) Inc. or Salisbury BKT Securities Corporation	PSE	Not permitted	Default
Singapore	08:00 to 17:06	Credit Suisse Securities Singapore Limited or CGS-CIMB Securities (Singapore) Pte Ltd	SGX	Permitted if covered	Lesser of 50,000 shares or SGD150,000
Taiwan	07:30 to 16:00	Morgan Stanley Taiwan Limited ⁷	TWSE; TPEX	Not permitted	500,000 shares or NTD15,000,000
Thailand	10:00 to 17:50	CGS-CIMB Securities (Thailand) Company Limited or Macquarie Securities (Thailand) Limited	SET	Not permitted	Default

¹⁰ Where a local broker is unable for any reason to report a trade, Liquidnet Asia may seek an alternative broker to report the trade. Where a contra to a trade in Indonesian, Malaysian, Pakistani, Philippines or Thai equities agreed through the Liquidnet Asia System is a Liquidity Partner that is also a broker participant of an exchange in the same market (e.g., a Malaysian Liquidity Partner that is a participant of Bursa Malaysia), then that Liquidity Partner will report the trade to the local exchange, rather than the local broker identified in this Schedule

¹¹ Members and Trading desk customers wishing to trade Indian, Korean and Taiwanese equities in the Liquidnet Asia System must also be a client of Morgan Stanley for those markets and the investor identities must be identified to Morgan Stanley in accordance with local rules and regulations for trading in those markets.

[^] Default minimum execution size is US\$5,000 in principal value. The lesser of US\$100,000 and 5% of ADV will also apply for orders using the negotiation functionality.



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Schedule B - Details of Targeted Invitation Functionality

The below sets out a summary of the operation of the Targeted Invitation functionality. Please refer to the Liquidnet Trading Rules for full details and contact your Relationship Manager if you have any questions or wish to opt-in to this functionality.

1. Qualifying Members and Qualifying Trading desk customers

All customers are able to send targeted invitations. However, only Qualifying Members and Qualifying Trading desk customers are able to receive targeted invitations. The criteria are set out below and are determined on a quarterly basis based on a Member's or customer's activity during the two prior calendar quarters.

To qualify for any quarter, a Member must meet either of the following conditions¹²:

- Average daily liquidity of USD \$100M or more (or equivalent in other currencies) provided to Liquidnet during either of the two prior quarters
- Any liquidity provided to Liquidnet during either of the two prior quarters and positive action rate (PAR) of 40% or higher during either of the two prior quarters.

Positive action rate (PAR) relates to Member activities around matches. Positive action means taking actions to trade on a match such as sending an invite to a contra or using the auto-negotiation functionality and the PAR is the percentage of matches where a party takes a positive action.

To qualify for any quarter, a Trading desk customer must have created at least nine firm orders during either of the two prior quarters.

If a Member is also a Trading desk customer, the qualifying Member criteria are applied instead of the qualifying Trading desk customers criteria.

Users other than Qualifying Members and Qualifying Trading desk customers cannot receive Targeted Invitations.

2. Manual Targeted Invitations

(a) Creating a manual targeted invitation

A Member that has an indication in a specific stock available for matching in the Liquidnet Asia System but that is not currently matched can use the Liquidnet desktop application to create a manual targeted invitation notification. When creating the manual targeted invitation, the Member must specify the quantity¹³,

¹² Any exceptions subject to determination by Liquidnet on an objective and non-discriminatory manner

¹³ Subject to a default minimum quantity for targeted invitations of the lesser of USD1.5million or 25% average daily volume (or the default minimum order size for the market if average daily volume is not available)



minimum execution size, limit price, maximum number of recipients for sending invitations, lookback period and time-in-force. A targeted invitation represents a firm order available for matching in the Liquidnet Asia System in the same manner as other orders using the auto-negotiation functionality. Targeted invitations are only available when the relevant public exchange is open for trading.

By default, a targeted invitation is sent to traders at Qualifying Members where the recipient trader meets any of the following criteria¹⁴:

- **Opposite-side indication in Liquidnet.** The Liquidnet Asia System received an opposite-side indication from the recipient at any time during the look-back period, where the available quantity was at least the default minimum quantity for targeted invitations.
- **Opposite-side indication placed away.** The recipient has or had an opposite-side indication in its order management system at any time during the look-back period where the quantity placed at other brokers is or was at least the default minimum quantity for targeted invitations.
- **Opposite-side order in Liquidnet.** Liquidnet received an opposite-side order from the recipient at any time during the look-back period, where the order size was at least the required minimum matching and negotiation size.
- **Opposite-side execution in Liquidnet.** The recipient executed in the Liquidnet Asia System with anyone at any time during the look-back period, where the recipient executed on the opposite-side to the sender's order (for example, the recipient executed a buy order and the sender's targeted invitation is a sell order) and the recipient's execution quantity was at least the default minimum quantity for targeted invitations.
- **Executed against sender.** The recipient executed in the Liquidnet Asia System against the sender at any time during the look-back period, where the execution quantity was at least the default minimum quantity for targeted invitations.
- **Invited the sender.** The recipient sent the sender a negotiation invitation or targeted invitation at any time during the current trading day.

The look-back period can be (i) only the current trading day; or (ii) the current trading day and up to 90 preceding trading days as determined by the sender.

A Member creating the manual targeted invitation has the further option to restrict recipients to only those that executed against the sender and/or invited the sender.

A sender of a manual targeted invitation is notified when a recipient indicates interest and requests more time. If a trader elects to have his or her manual targeted

¹⁴ Subject to exceptions to minimize the likelihood of the recipient having the same side indications



invitation order automatically cancelled when all recipients have dismissed the targeted invitation notification, the trader can determine that all of the targeted invitation notifications sent by the sender have been dismissed by any recipients.

(b) Receiving a targeted invitation

A recipient of a targeted invitation is notified through the Liquidnet desktop application or to the recipient's order or execution management system, where available. The recipient can act to make an opposite-side indication or order available for matching in the Liquidnet Asia System with the sender's order.

The notification includes the stock code and the sender's minimum execution size.

A Member or Trading desk customer can request Liquidnet to limit the circumstances when that Member or Trading desk customer will receive a targeted invitation, such as by applying a minimum size threshold to or limiting the look-back period of its prior opposite side indications, orders or prior placed away indications. With this limitation, a Member or Trading desk customer would not receive a targeted invitation unless the configured threshold is satisfied.

On receipt of a targeted invitation, in addition to making an opposite side indication or order available for matching in the Liquidnet Asia System, the recipient through the Liquidnet desktop application can either (i) notify the sender that the recipient is interested and request more time to respond to the targeted invitation or (ii) dismiss the notification.

3. Targeted Invitation from algos

The description above relating to targeted invitations that do not specifically reference manual targeted invitations are also applicable to automated targeted invitations, except as otherwise set forth below.

(a) Enabling automated targeted invitations

Liquidnet Asia will not send a targeted invitation for an algo order unless the customer has consented. The consent process depends on the method you use to transmit orders to Liquidnet Asia. Please contact your Relationship Manager for more details.

Subject to consent, Liquidnet Asia can send a targeted invitation notification for an algo order to qualifying recipients. Liquidnet Asia applies the following default configurations:



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- Maximum number of recipients – 5
- Look-back period – 20 preceding trading day
- Minimum execution size – default minimum quantity for targeted invitations
- Time-in-force – the same as the associated order

Customers can request Liquidnet Asia to adjust the default configurations.

(b) Guidelines for determining when to send automated targeted invitations

Liquidnet Asia does not automatically send a targeted invitation notification. Instead, Liquidnet Asia estimates the quantity that the order will execute externally over a period of time and the expected remaining quantity for the order over that time period. If the expected remaining quantity for the order after a period of time determined by Liquidnet Asia will be below the minimum execution size for targeted invitations for the applicable region, Liquidnet Asia will not send a targeted invitation for the algo order. In addition, Liquidnet Asia's systems can (i) delay the sending of targeted invitations for an order that can route externally, to allow for external block executions, and (ii) restrict the sending of a targeted invitation for any order (including Liquidnet-Only) to the circumstance where the size of the order is a specified multiple of the minimum execution size for the applicable region. These guidelines for sending Targeted Invitations only apply if the customer has consented to Liquidnet Asia sending a targeted invitation for their algo orders.

(c) Cancellation of automated targeted invitations

Liquidnet Asia will cancel any targeted invitation notifications for an order upon the occurrence of any of the following:

- *Remaining order size.* The sender's remaining order size is below the minimum quantity for targeted invitations.
- *Limit price.* At a specific time and 61 seconds after that, (i) the limit price of the sender's buy order is lower than the best bid (or mid-price, if the sender has a mid-point or better instruction) or (ii) the limit price of the sender's sell order is higher than the best offer (or mid-price, if the sender has a mid-point or better instruction).
- *Cancellation of associated order.* The sender cancels the associated order, and, in the case of a lowtouch order, a period of three seconds has elapsed.
- *Expiration of associated order.* The associated order expires.
- Expiration or cancellation of a targeted invitation notification does not affect the associated order.



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(d) Resending of a targeted invitation after a cancel

Liquidnet Asia can resent a targeted invitation after a cancel in accordance with the guidelines described above, except the fixed delay period runs from the most recent cancel of the targeted invitation.

(e) Receiving automated targeted invitations from Liquidity Partners

A Member or Trading desk customer eligible to receive targeted invitations only receives notification of automated targeted invitations from Liquidity Partners if the Member or Trading desk customer has both (i) elected to interact with Liquidity Partner resting orders and (ii) elected to receive targeted invitations. A trader at a Member or Trading desk customer may elect not to receive targeted invitation notifications from Liquidity Partners.

A notification of an automated targeted invitation from a Liquidity Partner indicates to the recipient that it is a “broker targeted invitation”.

4. Raindrop Alerts

When a Member is opted-in for manual targeted invitations has an unmatched indication in the Liquidnet Asia System, Liquidnet Asia will notify such Member through the ‘Raindrop icon’ displayed next to the symbol on the Liquidnet desktop application when one of the following has occurred in the same symbol:

- There was a Liquidnet execution in the symbol earlier that trading day reported through the desktop application and the Member has opted to have its intra-day Liquidnet executions reported through the Liquidnet desktop application (where intra-day reporting is available).
- There was a Liquidnet execution in the symbol on the previous trading day reported through the desktop application and the Member has opted to have its T+1 Liquidnet executions reported through the Liquidnet desktop application (where intra-day reporting is available).
- The Member had a matched indication in the symbol earlier that trading day
- The Member failed to respond to a targeted invitation notification in the symbol earlier that trading day
- The Member received an invitation to negotiate in the symbol earlier that trading day
- The Member had a Liquidnet execution in the symbol earlier that trading day.

Display of a Raindrop icon is intended to prompt a Member to create a targeted invitation for that unmatched indication.



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