Liquidnet Canada
IIROC Marketplace Thresholds

August 25 2016

Effective on or before August 25, 2016, pursuant to the Investment Industry Regulatory Organization of Canada (IIROC) Rules Notice 15-0186, Liquidnet Canada will implement marketplace thresholds for the trading of Canadian equities. Any match that would violate the price movement thresholds set against reference prices (NLSP and one minute NLSP) defined by IIROC will be rejected, and an error message will be provided to the affected parties explaining that the trade was rejected for failure to comply with IIROC marketplace thresholds.

IIROC has mandated each marketplace that has retained IIROC as its regulation services provider;

- apply Marketplace Thresholds during core trading hours of 9:30am to 4pm ET;
- set specific price thresholds beyond which a marketplace may not execute an order unless consented to by a Market Integrity Official;
- will measure against two reference prices: the national last sale price and the national last sale price established at one-minute intervals;
- need not include controls on the volume of an order;
- apply to all orders except for: A Basis Order, a Closing Price Order, a Special Terms Order, a Volume-Weighted Average Price Order, an Opening Order, a Market-On-Close Order and an order that participates in an auction following the resumption of trading after a trading halt;
- apply to an order received by a marketplace as a directed-action order ("DAO"); and
- should be publicly disclosed (at least on the website of the marketplace) as to the functionality of the control mechanism(s) used to implement the Marketplace Thresholds.

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The following table sets out the price parameters for Marketplace Thresholds* as prescribed by IIROC:

Class of Security	Price Category of Security	Threshold Level
Securities not subject to SSCBs	0.0 > – < .50	300%
	.50 ≥ – < 1.00	50%
	1.00 ≥ – < 5.00	30%
	5.00 ≥ – < 10.00	20%
	10.00 ≥ – < 30.00	15%
	30.00+	10%
Exchange-listed Debt	All price categories	20%
Exchange-traded Funds	All price categories	10%
Securities subject to SSCBs5 *(excluding Exchange-traded Funds)*	All price categories	10%

The above values may be subject to change by IIROC.

The price category of a security will be based on the last NLSP of that particular security on the immediately preceding trading day on the exchange on which the security is listed. For a newly listed security, it is expected that the listing exchange will send a notice by the evening prior to the first trading day of the security to all other marketplaces indicating the initial price category for that security. This process should be similar to the current practice for determining the price at which a newly listed security will trade for the purposes of calculating a "standard trading unit" for that security.

A Marketplace Threshold is triggered for a particular security when an order is received by a marketplace that, if executed, would exceed the prescribed threshold level.

Liquidnet Canada Marketplace Thresholds will operate at the prescribed levels during the core trading hours of 9:30am to 4pm ET. For the purposes of determining a price increase or decline, Liquidnet Canada will compare each order of a security to be traded on the marketplace to two reference prices:

1. the national last sale price of that security on that particular trading day ("NLSP"); and

2. the national last sale price of that security that occurred on the most recent minute interval ("One-Minute Reference Price"). For example: at 10:00:00 the One-Minute Reference Price would be the value of the NLSP at 10:00:00 and remains constant for one minute until it is updated at the next minute increment at 10:01:00. Therefore, the value of the One-Minute Reference Price at 10:01:08 is the value of the One-Minute Reference Price that was established at 10:01:00 and does not change, regardless of any orders that are executed, until it is reset at 10:02:00 to the value of the NLSP at 10:02:00.

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If a NLSP is not available on the current trading day preceding the order/trade, then no check is required. However once a NLSP is created on that trading day a check will be required for all subsequent orders/trades. The first trade of the day is not subject to a marketplace threshold, but it sets the NLSP. A subsequent trade is then checked against this NLSP. Trade prices on the previous day are irrelevant for setting marketplace threshold levels. If the One Minute Reference Price is not available in the preceding minute to the order/trade, then no check is required.

If an order, on execution, would trade at a price that exceeds the prescribed threshold level measured against either of these reference prices, Liquidnet Canada will reject the execution. An error message will be provided to the affected parties explaining that the trade was rejected for failure to comply with IIROC marketplace thresholds.

Below are some examples to illustrate the behavior of the Marketplace Thresholds.

Example A

- Match notification sent to parties at 9:30:40
- Parties enter negotiation phase at 9:30:45
- Match price agreed upon ($2.16) and match details are submitted for execution at 9:30:50.
- Prior to completing the execution, the price is measured against the NLSP ($2.15) +/– 30% which would result in a NLSP price band of $1.51 to $2.80. In this example the price is **within** the Marketplace Threshold.
- Prior to completing the execution, the price is measured against the One-Minute Reference Price ($2.10) +/– 30%, which would result in a One-Minute Reference Price band of $1.47 – $2.73. In this example the price is **within** the Marketplace Threshold.
- Execution will be completed and trade will print.

Example B

- Match notification sent to parties at 9:32:40
- Parties enter negotiation phase at 9:32:45
- Match price agreed upon ($1.25) and match details are submitted for execution at 9:32:50.
- Prior to completing the execution, the price is measured against the NLSP ($2.15) +/– 30% which would result in a NLSP price band of $1.51 to $2.80.
- In this example the price is *outside* the Marketplace Threshold.
- No need to check the One-Minute Reference Price as the execution price is outside the acceptable NLSP price band.
- Execution will be rejected and both participating parties will be notified with an error message.

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Example C

- Match notification sent to parties at 9:32:40

- Parties enter negotiation phase at 9:32:45

- Match price agreed upon ($2.83) and match are details submitted for execution at 9:32:50.

- Prior to completing the execution, the price is measured against the NLSP ($2.18) +/– 30% which would result in a NLSP price band of $1.53 to $2.83.

- In this example the price is **within** the Marketplace Threshold.

- Prior to completing the execution, the price is measured against the One-Minute Reference Price ($2.17) +/– 30%, which would result in a One-Minute Reference Price band of $1.52 – $2.82. In this example the price is **outside** the Marketplace Threshold.

- Execution will be rejected and both participating parties will be notified with an error message.

Marketplace thresholds will be inforce from 9:30am to 4pm ET. However, the first trade of each trading day (regardless whether an opening trade or not) will set the initial NLSP and will not be subject to Marketplace Thresholds. Similarly, the first trade in a particular security in Canada after the lifting of a regulatory trading halt will not be subject to Marketplace Thresholds.

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