

ORAL REASONS FOR APPROVAL OF A SETTLEMENT

The following reasons have been prepared for publication, based on the reasons delivered orally at the hearing, as edited and approved by the panel, to provide a public record of the oral reasons.

- [1] The Ontario Securities Commission and Liquidnet Canada Inc. are seeking our approval of a settlement they have agreed to in respect of the Commission's allegations that Liquidnet Canada maintained inadequate controls over marketplace participants' confidential order and trade information, contrary to National Instrument 21-101 *Marketplace Operation*.
- [2] We have decided to approve the settlement agreement and will order the sanctions that the parties have proposed. These are our oral reasons for doing so.
- [3] The facts leading to this settlement are set out in detail in the settlement agreement. I will provide a brief summary.
- [4] Liquidnet Canada, a registered investment dealer, operates fixed income and equities alternative trading systems. By, at the latest, June 30, 2023, Liquidnet Canada discovered that with respect to its fixed income alternative trading system, certain employees could potentially access confidential order and trade information of clients of Liquidnet US, and that certain employees of Liquidnet Canada affiliates could also access confidential order and trade information of Liquidnet Canada's fixed income marketplace participants. These individuals were not authorized to view that information.
- [5] Liquidnet Canada self-identified the issue, voluntarily suspended trading of Canadian debt securities on the fixed income alternative trading system, and on August 30, 2023, filed an incident report with the Commission. However, Liquidnet Canada was not forthcoming in its incident report about the issues behind the shut down, describing them as "systems enhancements".
- [6] Throughout September and October 2023, the Commission and Liquidnet Canada exchanged correspondence regarding the suspension of trading on Liquidnet Canada's fixed income alternative trading system. However, it was not until a

quarterly meeting with the Commission on November 1, 2023, that Liquidnet Canada advised that the suspension was related to the potential unauthorized access to confidential information.

[7] By October 2024, Liquidnet Canada realized there was also unauthorized visibility of marketplace participants' information on the Liquidnet Canada equity alternative trading system which Liquidnet Canada promptly reported to the Commission.

[8] Liquidnet Canada admits that it acted contrary to subsections 5.10(1), (2), and (3) of National Instrument 21-101 by:

- a. releasing a marketplace participant's order or trade information to a person or company, other than a marketplace participant, a securities regulatory authority or a regulation services provider;
- b. failing to implement reasonable safeguards and procedures to protect marketplace participants' order or trade information; and
- c. failing to implement adequate oversight procedures to ensure that the safeguards and procedures established are followed.

[9] Liquidnet Canada has agreed to pay an administrative monetary penalty of \$600,000, costs of the Commission's investigation and proceeding in the amount of \$75,000, receive a reprimand and submit to an external review of its practices and procedures by an independent consultant.

[10] Our role at today's hearing is to decide whether the terms of the settlement fall within a reasonable range of outcomes. Before today's hearing, we held a confidential conference with the parties. We had the opportunity to hear from the parties and to ask them questions about the settlement. In deciding whether to approve the settlement, we respect the negotiation process and accord significant deference to the resolution reached by the parties.

[11] We conclude that the sanctions proposed by the parties are within a reasonable range and are therefore in the public interest. In coming to that conclusion, we rely on the following sanctioning factors.

[12] The conduct in question is serious. Allowing access to confidential market participant order or trade information undermines investor confidence and the

fairness and efficiency of our markets. Failure to maintain a robust compliance system, particularly with respect to operating a shared technology platform across multiple jurisdictions raises the concern that all relevant risks are not effectively managed. While not the most egregious kind of misconduct that has come before the Tribunal, failure to comply with these essential obligations of operating a marketplace is very serious misconduct.

- [13] Liquidnet Canada's initial failure to promptly advise the Commission about the unauthorized disclosure of confidential information in the fixed income trading system is also serious and an aggravating factor. It is essential to the effective regulation of Ontario's capital markets that marketplaces provide the Commission with accurate information when suspending trading or responding to Commission inquiries.
- [14] Liquidnet Canada is an experienced market participant, which might be considered an aggravating factor, however it has not previously been the subject of enforcement action by the Commission.
- [15] The mitigating factors relevant to Liquidnet Canada's circumstances are that:
- a. it has co-operated with the Commission's investigation; and
 - b. by entering the settlement, it has taken accountability for its compliance failures and is conserving Commission and Tribunal resources.
- [16] Other settlement decisions are not determinative but do provide helpful guidelines. In terms of the reasonableness of the \$600,000 administrative penalty the parties have agreed to, they referred us to *Omega Securities Inc (Re)*,¹ a settlement approved by the Tribunal in 2018. In that instance, Omega Securities Inc., the operator of two alternative trading systems, agreed that certain information discrepancies identified by the Commission amounted to a failure to comply with National Instrument 21-101. The sanctions agreed to in that settlement included an administrative penalty of \$500,000.
- [17] We find that the sanctions against Liquidnet Canada are proportionate to its misconduct and meet the objectives of specific and general deterrence. The administrative penalty, external review and reprimand impress upon Liquidnet

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Canada and other marketplaces the seriousness of their compliance obligations under the National Instrument, in particular with respect to the confidentiality of market participants' order and trade information. In addition, it reinforces the importance of being timely and forthright when reporting compliance issues to the Commission.

[18] In conclusion, we find that the settlement is reasonable and in the public interest. We will issue an order substantially in the form of the draft attached to the settlement agreement.

[19] The terms of the settlement agreement include a reprimand of Liquidnet Canada. To the representative of Liquidnet Canada who is here today your presence allows the Panel to convey to Liquidnet Canada the importance of these matters and our formal disapproval of Liquidnet Canada's conduct, which fell well short of its regulatory obligations. We trust that Liquidnet Canada, through its directors, officers, and employees, accepts the reprimand, and will continue to make comprehensive, effective and sustained efforts to avoid a recurrence.

Dated at Toronto this 15th day of April, 2026

"M. Cecilia Williams"

M. Cecilia Williams

"Judith Robertson"

Judith Robertson

"Cathy Singer"

Cathy Singer