

BETWEEN:

ONTARIO SECURITIES COMMISSION

(Applicant)

– and –

LIQUIDNET CANADA INC.

(Respondent)

**SETTLEMENT AGREEMENT BETWEEN THE COMMISSION AND THE
RESPONDENT**

PART I - INTRODUCTION

1. This case involves inadequate controls by a marketplace over the confidential trade and order information of marketplace participants.

2. Liquidnet Canada Inc. (**LCI**), a registered investment dealer, has operated fixed income and equities alternative trading systems (**ATSs**). In 2023, LCI discovered that certain order and trade information of participants in LCI's fixed income ATS were visible to certain employees of LCI's foreign affiliates, who were not authorized under Ontario law to view the information. The available evidence does not indicate whether such employees actually viewed this information or whether information was visible to third parties. The order and trade information visible to these employees did not include indications of interest submitted to LCI's fixed income ATS.

3. After self-identifying the problem, LCI voluntarily suspended trading in Canadian debt securities on its fixed income ATS, and delivered an incident report to the Ontario Securities Commission (the **Commission**). The report represented that the shutdown of its fixed income ATS was necessary for "system enhancements", but was not as forthcoming as it should have been about the underlying issue, namely that order and trade information was visible to certain employees of LCI's foreign affiliates.

4. It later came to light that the LCI Equities ATS infrastructure permitted access to participant order and trade information without consent in connection with orders placed on its equities ATS. Such access extended to employees of foreign affiliates of LCI who were not authorized to see it. The available evidence does not disclose whether such employees actually viewed this information or whether information was visible to third parties. The order and trade

information visible to employees of LCI's US affiliate did not include indications of interest submitted to the LCI Equities ATS.

5. When marketplaces, including alternative trading systems, permit access to confidential participant order or trade information without consent, they undermine investor confidence and the fairness and efficiency of our markets. Marketplaces must have a robust compliance system in place to address all relevant risks, including those associated with operating a shared technology platform in multiple jurisdictions. Marketplaces must also provide the Commission with accurate information when suspending trading or responding to the Commission's inquiries.

6. LCI and the Commission (together, the **Parties**) wish to resolve, on consent and without a hearing on the merits, issues arising from LCI's handling and protection of marketplace participants' order and trade information in connection with its ATSS, on the terms set out in this settlement agreement (the **Settlement Agreement**).

PART II - JOINT SETTLEMENT RECOMMENDATION

7. The Parties will jointly file a request that the Tribunal issue a Notice of Hearing (the **Notice of Hearing**) to announce that it will hold a hearing (the **Settlement Hearing**) to consider whether, pursuant to sections 127 and 127.1 of the *Securities Act*, RSO 1990, c S.5, as amended (the **Act**), it is in the public interest for the Tribunal to make certain orders against LCI.

8. The Commission and LCI jointly recommend settlement of the proceeding (the **Proceeding**) against LCI in accordance with the terms and conditions set out in this Settlement Agreement. LCI consents to the making of an order (the **Order**) substantially in the form attached as Schedule "A" to this Settlement Agreement based on the facts set out herein.

9. For the purposes of the Proceeding, and any other regulatory proceeding commenced by the Commission or another securities regulatory authority, LCI agrees with the facts set out in Part III of this Settlement Agreement and the conclusions in Part IV and V of this Settlement Agreement.

PART III – AGREED FACTS

A. LCI

10. LCI is a corporation incorporated under the laws of Canada. LCI is one of a family of companies that include Liquidnet, Inc., LCI's US-based affiliate (**Liquidnet US**), and Liquidnet Europe Limited, Liquidnet's UK-based affiliate.

11. LCI has been registered with the Commission as an investment dealer since 2004.

12. LCI operated an ATS where marketplace participants can submit indications of interest which can match with other indications of interest that can result in trading in fixed income products (the **LCI Fixed Income ATS**) until August 2023, when LCI suspended trading of Canadian debt securities on it, as described further below.

13. LCI has also operated an ATS where marketplace participants can submit indications of interest which can match with other indications of interest that can result in trading in equities products (the **LCI Equities ATS**). LCI continues to operate the LCI Equities ATS.

B. Unauthorized Access to Market Participants' Trade and Order Information

14. Certain order and trade information of Canadian marketplace participants on the LCI Fixed Income ATS and on the LCI Equities ATS has been visible to employees of certain LCI foreign affiliates. The available evidence does not disclose whether the employees of LCI's affiliates actually viewed or accessed this information or whether information was visible to third parties. The order and trade information visible to the employees of LCI's affiliates did not include indications of interest submitted to the LCI Fixed Income ATS or LCI Equities ATS.

15. Certain of these employees were not authorized under Ontario securities law to see this order and trade information. These employees were not authorized to see it because access by these employees to this order and trade information was not required in order for LCI to provide services to these marketplace participants, and the marketplace participants did not consent to have this order and trade information shared with these employees of certain of LCI's foreign affiliates.

C. LCI's Suspension of Trading on the LCI Fixed Income ATS

16. By, at the latest, June 30, 2023, LCI became aware that its fixed income staff could potentially access certain order and trade information of clients of Liquidnet US, and that, *vice versa*, certain employees of LCI affiliates could also access order and trade information of LCI's marketplace participants on the LCI Fixed Income ATS. After self-identifying the issue, LCI suspended trading of Canadian debt securities on the LCI Fixed Income ATS on or about August 29, 2023 so that the issue could be remediated.

D. LCI's Communication of the Suspension to the Commission

17. On August 30, 2023, LCI communicated the fact of the shutdown to the Commission and provided an incident report (the **Incident Report**). The Incident Report indicated:

- (a) that "Liquidnet is making system enhancements that impact the Marketplace which require us to suspend trading to complete the enhancements";
- (b) that "there was no "incident" causing the suspension. Rather, to update the system we need to briefly suspend trading in fixed income securities";
- (c) that the suspension began "in connection with discussions of systems enhancements"; and
- (d) that "Liquidnet regularly reviews its systems and determined an enhancement was warranted".

18. The Incident Report did not indicate that there was visibility of LCI's marketplace participants' trade and order information on the LCI Fixed Income ATS to employees of LCI foreign affiliates, nor that the visibility issue precipitated the perceived need for "system enhancements".

19. In September and October 2023, the Commission and LCI exchanged correspondence regarding the suspension of trading on the LCI Fixed Income ATS, including updates on the contemplated completion of the system enhancements and the resumption of trading. In the course of this correspondence, LCI's responses to the Commission were unclear in respect of the degree to which the systems used by LCI and its affiliates were segregated, and did not, at this time, advise that employees of LCI affiliates could access trade and order information of LCI's marketplace participants.

20. At a quarterly meeting with the Commission on November 1, 2023, and in subsequent correspondence with the Commission, LCI advised that the suspension of trading on the LCI Fixed Income ATS was related to the visibility issues described above.

21. LCI's communications to the Commission in Fall 2023 were not as forthright as they could have been, and LCI ought to have advised the Commission of the visibility issue earlier than it did.

E. LCI's Reporting Regarding the LCI Equities ATS

22. By October 2024, LCI realized that there was also unauthorized visibility of marketplace participants' information on the LCI Equities ATS, which LCI promptly reported to the Commission.

F. LCI's Insufficient Safeguards and Procedures

23. Prior to 2023, LCI failed to implement reasonable safeguards and procedures to protect its marketplace participants' order and trade information. LCI has since increased safeguards and procedures.

G. LCI's Inadequate Oversight Procedures

24. Further, LCI's oversight procedures to ensure that the safeguards and procedures that it has now established to protect its marketplace participants' order and trade information are followed were inadequate.

H. LCI's Outsourcing of Services and Systems

25. LCI outsources some of its key services and systems to one or more affiliates, including the provision of its trading technology. LCI's outsourcing arrangements do not require those affiliates to implement reasonable safeguards to protect LCI's marketplace participants' order and trade information, nor do they require those affiliates to implement adequate oversight procedures.

I. Mitigating Factors

26. LCI has fully co-operated with the Commission's investigation into this matter.

PART IV - NON-COMPLIANCE WITH ONTARIO SECURITIES LAW

27. The Respondent admits that the foregoing conduct described in Part III was contrary to subsections 5.10(1), (2), and (3) of National Instrument 21-101 *Marketplace Operation* (NI 21-101).

PART V - TERMS OF SETTLEMENT

28. The Parties agree that it is in the public interest for the Tribunal to issue an order pursuant to sections 127 and 127.1 of the Act.

29. Specifically, the Parties agree to jointly request that the Tribunal make the Order substantially in the form attached as Schedule "A", pursuant to which it is ordered that:

- (a) this Settlement Agreement is approved;
- (b) LCI shall pay an administrative penalty of \$600,000 (CAD) for failures to comply with Ontario securities law, pursuant to paragraph 9 of subsection 127(1) of the Act;
- (c) LCI shall submit to a review of its practices and procedures by an independent consultant acceptable to the Commission, at LCI's expense, in accordance with the terms of reference set out in Schedule 1 to Order, pursuant to paragraph 4 of subsection 127(1);
- (d) LCI shall be reprimanded, and the reprimand shall be received orally by a current officer of LCI, pursuant to paragraph 6 of subsection 127(1); and
- (e) LCI shall pay \$75,000 (CAD) toward the costs of the Commission's investigation and proceeding, pursuant to section 127.1 of the Act.

30. LCI shall pay the amounts set out in the preceding paragraph by wire transfer to the Commission prior to the issuance of the Order. In the event the Order is not granted by the Tribunal, the amounts will be returned forthwith to LCI.

31. The Respondent acknowledges that this Settlement Agreement and the Order may form the basis for orders of parallel effect in other jurisdictions in Canada. The securities laws of some other Canadian jurisdictions allow orders made in this matter to take effect in those other jurisdictions automatically, without further notice to the Respondent.

PART VI - FURTHER PROCEEDINGS

32. If the Tribunal approves this Settlement Agreement, no enforcement proceedings will be continued against the Respondent under Ontario securities law based on the misconduct described in Part III of this Settlement Agreement, unless the Respondent fails to comply with any term in this Settlement Agreement, in which case enforcement proceedings may be brought or continued under Ontario securities law against the Respondent that may be based on, among other things, the facts set out in Part III of this Settlement Agreement as well as the breach of this Settlement Agreement.

33. The Respondent acknowledges that, if the Tribunal approves this Settlement Agreement and the Respondent fails to comply with any term in it, proceedings may be brought in order to ensure compliance with the terms of the Settlement Agreement.

34. The Respondent waives any defences to a proceeding referenced in the two preceding paragraphs that are based on the limitation period in the Act, provided that no such proceeding shall be commenced later than six years from the date of the occurrence of the last failure to comply with this Settlement Agreement.

PART VII - PROCEDURE FOR APPROVAL OF SETTLEMENT

35. The parties will seek approval of this Settlement Agreement at the Settlement Hearing before the Tribunal, which shall be held on a date determined by the Tribunal's Governance and Tribunal Secretariat in accordance with this Settlement Agreement and the Tribunal's *Rules of Procedure*.

36. The Respondent will attend the Settlement Hearing in person or by video conference.

37. The parties confirm that this Settlement Agreement sets forth all of the agreed facts that will be submitted at the Settlement Hearing, unless the parties agree that additional facts should be submitted at the Settlement Hearing.

38. If the Tribunal approves this Settlement Agreement:

- (a) the Respondent irrevocably waives all rights to a full hearing, judicial review or appeal of this matter under the Act; and
- (b) neither party will make any public statement that is inconsistent with this Settlement Agreement or with any additional agreed facts submitted at the Settlement Hearing.

39. Whether or not the Tribunal approves this Settlement Agreement, the Respondent will not use, in any proceeding, this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement as the basis for any attack on the Commission or the Tribunal's jurisdiction, alleged bias, alleged unfairness or any other remedies or challenges that may be available.

PART VIII - DISCLOSURE OF SETTLEMENT AGREEMENT

40. If the Tribunal does not approve this Settlement Agreement or does not make an order substantially in the form of the Order attached as Schedule "A" to this Settlement Agreement:

- (a) this Settlement Agreement and all discussions and negotiations between the parties before the Settlement Hearing will be without prejudice to the Commission and the Respondent; and
- (b) the Commission and the Respondent will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing on the merits of the allegations contained in an Application for Enforcement Proceeding based on the conduct described herein. Any such proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this Settlement Agreement.

41. The parties will keep the terms of this Settlement Agreement confidential until the Settlement Hearing, except as is necessary to make submissions at the Settlement Hearing. If, for whatever reason, the Tribunal does not approve the Settlement Agreement, the terms of the Settlement Agreement shall remain confidential indefinitely, unless the parties otherwise agree in writing or if required by law.

PART IX - EXECUTION OF SETTLEMENT AGREEMENT

42. This Settlement Agreement may be signed in one or more counterparts which together constitute a binding agreement.

43. A facsimile copy or other electronic copy of any signature will be as effective as an original signature.

DATED at Toronto, Ontario this **6th** day of April, 2026.

“Jing Ding”

Witness (print name): Jing Ding

“Soshi Sankat”

LIQUIDNET CANADA INC.

I have authority to bind the corporation

**Name: Soshi Sankat
Title: Head of Canada**

DATED at Toronto, Ontario, this **8th** day of April, 2026.

ONTARIO SECURITIES COMMISSION

By: ***“Bonnie Lysyk”***
Name: Bonnie Lysyk
Title: Executive Vice President, Enforcement Division

SCHEDULE “A”

BETWEEN:

ONTARIO SECURITIES COMMISSION

(Applicant)

- and -

LIQUIDNET CANADA INC.

(Respondent)

[Names of Adjudicators comprising the Panel]

File No. [#]

[Date order made]

ORDER

(Subsection 127(1) and section 127.1 of the *Securities Act*, RSO 1990, c S.5)

WHEREAS on [date], the Capital Markets Tribunal held a hearing [select option,] to consider the joint request for a settlement hearing filed by the Ontario Securities Commission and LCI for approval of a settlement agreement dated [date] (the **Settlement Agreement**);

ON READING the joint request for a settlement hearing, the Application for Enforcement Proceeding dated [date], the Settlement Agreement and the written submissions of the Commission, on hearing the submissions of the representatives of the Commission and Liquidnet Canada Inc. (LCI), and on being advised by the Commission that it has received payments from the respondent in the amount of \$600,000 (CAD) and \$75,000 (CAD);

IT IS ORDERED THAT:

1. the Settlement Agreement is approved;
2. LCI shall pay an administrative penalty of \$600,000 (CAD) for failures to comply with Ontario securities law, pursuant to paragraph 9 of subsection 127(1) of the Act;

SCHEDULE “1”

REVIEW OF PRACTICES AND PROCEDURES TERMS OF REFERENCE

1. Liquidnet Canada Inc. (LCI) shall retain an independent consultant acceptable to the Commission to review LCI Fixed Income ATS and LCI Equities ATS’ systems (the **ATS Systems**) and controls around the ATS Systems, including LCI’s operations, agreements (including for outsourcing), internal controls, practices, policies, and procedures, relating to confidential treatment of order and trade information to ensure that:

- (a) The ATS Systems are not designed to release or make visible marketplace participants’ order or trade information to unauthorized persons or companies, including employees of LCI’s affiliates, and access to the ATS Systems is appropriately restricted and aligns with each employee’s authorized roles and responsibilities;
- (b) The safeguards and procedures to protect marketplace participants’ order or trade information, including limiting access to order or trade information of marketplace participants to employees of LCI or persons or companies retained by the marketplace to operate the system and implementing standards controlling trading by employees of LCI for their own accounts, are adequate and reasonable;
- (c) The oversight procedures to ensure that the safeguards and procedures established under subsection (b) are adequate;
- (d) LCI takes appropriate measures to ensure that the service providers, including its affiliates, protect the marketplace participants’ proprietary, order, trade, or any other confidential information for the key services and systems that LCI outsources to the service providers;

2. The Consultant shall be appointed promptly following the approval of the Settlement Agreement, but in any event no later than 30 days following the approval, unless the Commission requires further time to approve the proposed Consultant.

3. Within 30 days of the Consultant's appointment, LCI shall require the Consultant to provide a detailed review plan (the "**Review Plan**") to an Associate Vice President or Senior Vice President in the Trading and Markets Division of the Commission (the "**OSC VP**"). The Consultant shall implement any changes to the Review Plan required by the OSC VP.

4. LCI shall require the Consultant to deliver to the OSC VP a written report describing the Consultant's findings, LCI management's response to the findings, and recommendations by the Consultant for each finding to ensure that the ATS Systems conform with the obligations set out in paragraph 1 above (the "Report"), within 180 days of the approval by the OSC VP of the Review Plan;

5. Within 6 months of the delivery of the Report to the OSC VP, LCI shall use best efforts to implement any recommendations of the Consultant described in the Report, and the Ultimate Designated Person and the Chief Compliance Officer of LCI shall provide written confirmation to the OSC VP of the implementation efforts of the Consultant's recommendations in the Report (the **Confirmation Letter**);

6. Within 90 days after the delivery of the Confirmation Letter to the OSC VP, LCI shall cause the Consultant to conduct appropriate testing to determine whether the recommendations in the Report have been fully implemented, and whether any changes resulting from those recommendations are being appropriately followed, administered and enforced by LCI (**Final Testing**)

7. Within 60 days of completing the testing, the Consultant shall provide a letter (the **Attestation Letter**) to the OSC VP, expressing his or her conclusions with respect to the Final Testing and:

- (a) include a report with the Attestation Letter which provides a detailed description of the testing performed to support the conclusions contained in the Attestation Letter; and
- (b) submit such additional reports as may be requested by the OSC VP for the purpose of satisfying the OSC VP that the conclusions expressed in the Attestation Letter described above are valid;

8. If the Commission is not satisfied with the Consultant's recommendations, or with LCI's efforts to implement the recommendations of the Consultant, then after providing the Consultant with a reasonable opportunity to revise its recommendations, or after providing LCI with a reasonable opportunity to comply with the recommendations of the Consultant, if the Consultant or LCI has still not done so, as the case may be, the Commission may bring the matter to the Tribunal for determination of whether a further order under s. 127(1)4 of the Act is warranted.

9. LCI shall provide the Consultant with reasonable access to all of LCI's books and records necessary to complete the Consultant's mandate and will allow the Consultant to meet privately with LCI's officers, directors and employees. LCI shall require its officers, directors and employees to cooperate fully with the Consultant with respect to the Consultant's work and with respect to the implementation of the recommendations in the Report;

10. LCI shall not terminate the Consultant's engagement and retainer without prior written approval by the OSC VP;

11. LCI shall provide the Commission a direction giving consent for unrestricted access and permission for the Commission and the Consultant to communicate with one another regarding the Consultant's work and LCI's progress with respect to the implementation of the recommendations in the Report and/or any other matter relevant to this review; and

12. For greater certainty, the terms of this review do not limit in any respect the authority of the Commission to undertake, as part of its normal course activities, a review of all matters within the scope of this review or any other aspect of LCI's business.