

November 12, 2013

Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090  
Email: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

**Re: File Number SR-FINRA-2013-042; Notice of Filing of Proposed Rule Change to Require Alternative Trading Systems to Report Volume Information to FINRA and Use Unique Market Participant Identifiers**

Ladies and Gentlemen,

Liquidnet, Inc. appreciates the opportunity to comment on SR-FINRA-2013-042, "Notice of Filing of Proposed Rule Change to Require Alternative Trading Systems to Report Volume Information to FINRA and Use Unique Market Participant Identifiers" (the FINRA rule proposal).

Liquidnet supports the FINRA rule proposal as it would enhance transparency to investors relating to where orders are executed in the market. The FINRA rule proposal also would make publicly available data that is relevant to the current market structure debate, contributing to an informed discussion of market structure issues.

We have the following specific comments on the FINRA rule proposal:

***Proposed time period for implementation***

FINRA proposes that the effective date for the ATS volume reporting requirement will be 90 days following publication of the regulatory notice announcing Commission approval. This timeframe should be acceptable, subject to FINRA providing a format for reporting the data that is straightforward for firms to implement.

***Professional user fee***

FINRA proposes a user fee for professionals that seek to access the reportable volume data. The purpose for the fee is to enable FINRA to recover costs that it may incur in collecting and providing the data. We would propose, as an alternative, that the fees be borne by FINRA Members as part of their FINRA dues. FINRA notes that an important objective of the rule proposal is to enhance the transparency of trading activity in the over-the-counter market. Making the data available to all users without cost would be the approach that is most consistent with this objective.

### **Reporting of individual executions**

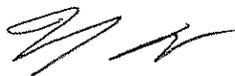
We would support, in the future, a requirement that the ATS where individual trades are executed be identified to the public, subject to an appropriate delay period that is acceptable to institutional investors. This data would be useful for long-term investors in comparing execution quality across execution venues.

In Europe, this data is currently available to the public on a real-time basis. Intelligent Financial Systems Limited (IFSL), a UK-based firm that specializes in execution cost analysis for European equities, uses this data to compare execution quality across execution venues. In its March 2013 report, IFSL computes that Liquidnet provides 106.64 basis points of savings on average relative to execution on an exchange market.<sup>1</sup> The report further shows that Liquidnet Europe's average execution size for March 2013 was €811,163, resulting in Liquidnet saving each side (the buyer and the seller) €8,650, or the equivalent of \$11,626 on average, for each trade executed on Liquidnet.<sup>2</sup> These cost savings are passed on directly to the individual long-term investors that are the beneficiaries of the accounts managed by our institutional clients. This type of data is beneficial for institutional investors in determining how they can most efficiently execute orders on behalf of their customers.

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We appreciate the opportunity to comment on the FINRA rule proposal.

Very truly yours,



Howard Meyerson  
General Counsel

Enc.

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<sup>1</sup> Intelligent Financial Systems Limited, "LiquidMetrix Guide to European Dark Pools," March 2013. The summary page of the report is enclosed with this letter.

<sup>2</sup> Based on a conversion rate of USD/EUR = 1.344, as of November 12, 2013, <http://www.bloomberg.com/markets/currencies/currency-converter/> (accessed November 12, 2013).



## LiquidMetrix Guide to European Dark Pools – March 2013

## Key Points

- This guide contains information on the following dark pools: BATS Europe Dark, BlockMatch™, Chi-Delta, Liquidnet, Nordic@Mid, POSIT, Turquoise Dark, UBS MTF.
- We analyse every trade executed on these venues comparing the price achieved to full depth lit liquidity on European trading venues.
- Based on this analysis we can quantify price improvement, EVBBO outliers and a range of other execution quality statistics for each dark pool.
- For each dark pool we also provide some general information such as market model used, stock coverage.

## Overview

During March 2013 a total value of **EUR 32.64bn** was traded on the Dark Pools included in this guide.

Some brief statistics:

- Overall an average price improvement of **14.19 BPS** representing **EUR 46.33m** was achieved by dark pool participants compared to a strategy of sending aggressive orders to the best lit venue.
- Although all venues price off the midpoint of the primary market, well over **99%** of dark pool trades executed were also within consolidated EVBBO.

Trade sizes on some venues were of a size that meant the trades could not have been executed on any lit venue (% illiquid on lit).

	BATS Dark	BlockMatch	Chi-Delta	Liquidnet	Nordic@Mid	POSIT	Turquoise Dark	UBS MTF
% Illiquid on Lit	0.06%	0.32%	0.05%	70.80%	0.36%	18.89%	0.28%	0.06%
% Inside EVBBO*	99.62%	99.98%	99.71%	99.98%	99.92%	99.73%	99.62%	99.70%
% outside EVBBO*	0.38%	0.02%	0.29%	0.02%	0.08%	0.27%	0.38%	0.30%
% at EBBO Mid*	52.94%	26.20%	55.36%	69.59%	76.23%	52.97%	48.04%	30.20%
Arbitrage v MTF	0.003 BPS	0.000 BPS	0.002 BPS	0.000 BPS	0.000 BPS	0.001 BPS	0.004 BPS	0.004 BPS
Avg Onbook Spread	8.42 BPS	8.89 BPS	8.83 BPS	213.28 BPS	16.13 BPS	36.60 BPS	10.70 BPS	7.48 BPS
Avg Improvement	4.21 BPS	4.49 BPS	4.41 BPS	106.64 BPS	8.07 BPS	18.30 BPS	5.35 BPS	3.74 BPS
Worst Case Spread Capture ***	30.41%	11.51%	32.38%	40.11%	42.38%	33.28%	24.99%	16.75%
Value Traded	€ 5,251 m	€ 3,245 m	€ 6,128 m	€ 2,579 m	€ 82 m	€ 4,245 m	€ 2,923 m	€ 8,186 m
No of trades	780,969	365,631	950,241	3,179	7,497	253,759	415,718	1,001,947
Avg Trade Size	€ 6,724	€ 8,878	€ 6,449	€ 811,163	€ 10,939	€ 16,729	€ 7,031	€ 8,170
Instruments Traded	1,289	1,325	1,307	720	210	1,393	1,336	1,505
(Avg p.d)	(853)	(651)	(902)	(86)	(65)	(621)	(865)	(959)
EFF Instruments	71.1	74.8	80.0	52.4	20.4	85.8	83.1	72.6
(Avg p.d)	(52.8)	(45.6)	(59.1)	(13.6)	(7.5)	(32.90)	(50.3)	(48.7)
Fees	0.15 BPS 0.05 BPS (self cross)	n/a	0.30 BPS 0.15 BPS (non IOC/FOK)	n/a	n/a	n/a	0.30 BPS	0.10 BPS
Cleared / Counterparty	Yes CCP=Multiple	No Bilateral	Yes CCP=Multiple	Bilateral/ CCP=SDCC-clear	CCP/ Bilateral	n/a n/a	Yes CCP=Multiple	Yes CCP=Multiple

\*Based on value traded

\*\* Based on midpoint reported trades only, not accounting for maker - taker fee/rebate.

\*\*\* For dark pools that include bid/offer matches, this statistic is not relevant, see Methodology.

**markit** Data for BlockMatch, Liquidnet, POSIT, UBS MTF is supplied by Markit BOAT. Markit BOAT is a MiFID-compliant trade reporting platform which enables MTFs and investment firms to meet their pre- and post-trade transparency obligations for their cash equity trades.

For more information contact: [markitboatsales@markit.com](mailto:markitboatsales@markit.com)

The LiquidMetrix Guide to European Dark Pools and data for Turquoise, BATS Europe and Chi-X Europe is supplied by LiquidMetrix.

**LiquidMetrix**  
Best Execution, Quantified

LiquidMetrix is the suite of software services focussing on execution quality, transaction cost analysis, SOR analysis, best execution compliance and pre-trade cost prediction offered by Intelligent Financial Systems.  
For more information contact: [liquidmetrix@ifs.com](mailto:liquidmetrix@ifs.com)