

September 3, 2019

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506
Email: pubcom@finra.org

Dear Ms. Mitchell,

Liquidnet, Inc. appreciates the opportunity to comment on Regulatory Notice 19-22, "ATS Fixed Income Trading Volume" (the FINRA rule proposal).

Liquidnet supported the publication by FINRA in June 2014 of individual ATS volume information for equity securities on its website as Liquidnet agreed that this publication for equity trades enhanced transparency to investors relating to where equity orders are executed in the markets. Liquidnet also believed that making this data publicly available contributed to an informed discussion of then-current market structure issues relating to equities.

However, at this time Liquidnet does not believe that the FINRA rule proposal as described would contribute in a similarly positive way were it to cover ATS volume and trade count information for corporate and agency debt securities for the reasons set out below.

Most Fixed Income segments are in a nascent stage of electronification which suggests that reporting of ATS volumes and trade count may be premature and/or incomplete.

It is Liquidnet's estimate that outside of government bonds, the U.S. corporate bond market (investment grade and high yield) has the highest electronic trading penetration at under 20%¹. While we firmly believe that electronic trading will continue to increase in all fixed income asset classes, some fixed income asset classes are currently relatively untouched by technology. It is for these reasons that Liquidnet believes that publishing only ATS-executed fixed income volume and trade count information would not achieve the goal of transparency that we believe FINRA is seeking. Rather, we believe that this could create an incomplete picture of the fixed income electronic marketplace. A key missing component is where liquidity can be found, which does not necessarily correlate to executed volumes or trade count. Further, while sell side firms report executions in Fixed Income instruments to TRACE, the FINRA rule proposal does not provide

¹ Estimate based on 2018 publicly available data.

attributed executions for sell side firms which could comprise the other side of the trade for many of the ATS executed trades. Thus, we feel that implementing the FINRA rule proposal for ATS volume and trade count only may result in an imperfect picture of the electronic fixed income landscape.

More volume does not necessarily equate to a benefit to the end investors.

We believe that the goal of regulation in any trading market is to maximize the benefit derived by the underlying investors – i.e. the individuals whose money is managed via investments in mutual funds and pension funds by institutional investors. In Liquidnet’s view, what illustrates this benefit to the end investor is efficiency of the market via executions of large blocks and buy-side natural liquidity². In equities, FINRA reported volume focuses on block executions and if it was required to report executions in fixed income, we believe the same theory would apply. Currently, the majority of electronic trading currently in credit is for smaller sized trades³. To report ATS volume and trade count fails to include a key component of market efficiency – trading in size. While Liquidnet may currently have less volume than some other players, we believe it has a significantly larger execution size on average which benefits the ultimate investor. This point would not be apparent with this proposed requirement to publish execution and trade count, as opposed to average execution size.

The FINRA rule proposal does not provide information on liquidity formation, which could be of great value to investors.

There is significant liquidity formation taking place in ATSs beyond the largest incumbent ATSs⁴. Such liquidity formation would not be captured in the disclosures proposed by the FINRA proposed rule. Such liquidity formation could be of particular interest to investors who are challenged by market fragmentation, especially at times of market stress. By solely emphasizing executed volumes, the proposal could negatively impact liquidity formation as it would inadvertently direct inventors to venues based on actual executions compared to size of available liquidity.

² IHS Markit conducted a venue TCA analysis for all buy side to buy-side trades executed on Liquidnet. Results show an 87% transaction cost savings relative to the best dealer prices at the time of the trade, when executing in Liquidnet against buy-side natural liquidity (Based on data for the period 2 Jan 17 – 31 Mar 18 for buy side to buy side size weighted trades)

³ Based on currently available public information for Q2 2019, we estimate that Liquidnet’s average trade size is significantly larger than certain incumbent venues. For Q2 2019, the average execution size for Liquidnet’s fixed income dark trading protocol was \$3.1M

⁴ Liquidnet’s average daily liquidity for Q2 2019 was approximately \$18B.

Given the relative newness of the electronic trading marketplace in Fixed Income, reporting ATS volumes and trade count information at this time would create barriers to entry for new ATSs and stifle competition and innovation for existing ATSs.

The electronification of fixed income trading is still in the early stages. There are currently a few incumbents that collectively execute a large portion of the trades. However, there are newer venues that provide innovative ways of sourcing liquidity and technologically advanced protocols that benefit institutional investors, which in turn benefit the end investor. Requiring publication of ATS volumes and trade count today would create a picture of the marketplace where it appears that most trades are occurring on a small number of incumbent venues. This at a minimum would create a barrier for new entrants and potentially deny the needed runway for growing firms to achieve more volume, and in the worst case, could create a monopoly for existing firms that have more volume simply because they have existed longer. Newer entrants would be disincentivized to continue to innovate in ways that could, given time, achieve similar if not greater executed volume and trade count in the near future. Additionally, given that there are different trading protocols in the various ATSs, comparing executed volume and trade count may not be an "apples to apples" approach.

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

Very truly yours,



Cheryl Knopp
General Counsel