liquidnet

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April 8, 2015

By Email
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Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: Regulatory Notice 15-03; Fixed Income Quotation Information and Alternative Trading Systems

Dear Ms. Asquith,

Liquidnet, Inc. (Liquidnet) appreciates the opportunity to comment on Regulatory Notice 15-03 (the Regulatory Notice) published by the Financial Industry Regulatory Authority (FINRA).

Liquidnet is a broker-dealer registered with the Securities and Exchange Commission (SEC) and a member of FINRA. Liquidnet operates the Liquidnet Fixed Income ATS, an alternative trading system (ATS) used by participants to execute large trades in corporate debt securities. The Liquidnet Fixed Income ATS provides a displayed limit order book as well as functionality for one-to-one negotiation of large trades.

The proposed reporting requirements, if adopted, should be applied not just to ATSs, but also to dealers. According to a recent report by TABB Group, electronic trading represents less than 10% of trading in investment grade corporate bonds and less than 5% of trading in high yield corporate bonds.[1]

TABB Group highlights the current state of the bond markets:

> "New capital requirements imposed on large bank holding companies are causing a retraction of liquidity provision and a reduction in inventories. Some believe the amount of liquidity provided can no longer support the amount of liquidity required. This is starting to tear at the fabric of the principal-based risk model, the primary model utilized in the OTC fixed income markets.

[1] Anthony J. Perrotta, Jr. and Colby Jenkins, TABB Group, "U.S. Fixed Income Market, Industry Trends & Drivers 2014," December 2014, p. 12.

> In the meantime, the fixed income markets are expanding.... The US corporate bond market is 45% larger, poised to have record issuance of $1.5 trillion in 2014 and growing to $7.8 trillion in total.
>
> Any structural engineer would assess the situation and emerge concerned. As the Fed moves to raise rates, the subsequent exit from fixed income may prove to be sloppy at best, devastating at worst. Traditional liquidity providers, in fact may not be willing, to provide the orderly withdrawal they have in the past.[2]

TABB Group further reports that, "increasingly, the use of riskless principal-based trading is expanding and the market is gravitating towards an order-driven structure."[3]

ATSs will play an important role in mitigating the liquidity risk in the corporate debt market as the market gradually transitions from a principal-based market to one that is riskless principal and agency-based. In this evolving market environment, it is important that regulatory requirements are imposed in a fair and equitable manner across all market participants. Imposing reporting obligations on a segment of the corporate debt market that represents less than 10% of overall trading puts this segment of the market at a competitive disadvantage.

On a related point, if request for quote (RFQ) systems are to be exempted from the proposed reporting requirements, one-to-one negotiation systems likewise should be exempted. RFQ and negotiation processes are analogous in that an order is only displayed to one counter-party.

Liquidnet appreciates the opportunity to comment on the rule proposals set forth in the Regulatory Notice. Please contact me at (646) 674-2044 if you would like clarification on any of our comments.

Very truly yours,

Howard Meyerson, General Counsel

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[2] Id., p. 4.

[3] Anthony J. Perrotta, JR. and Radi Khasawneh, TABB Group, "Corporate Bonds: The Price is Right", January 2015, p. 1.