REPAIRING OUR INDUSTRY THROUGH MARKET-DRIVEN SOLUTIONS

SETH MERRIN
FOUNDER AND CEO, LIQUIDNET

May 3, 2016
“I CANNOT SAY IT LOUDLY ENOUGH – THE INDUSTRY MUST GET TOGETHER AND CREATE PRIVATE MARKET SOLUTIONS, SOLUTIONS THAT ACTUALLY WORK AND ARE EFFICIENT, BEFORE THE GOVERNMENT IMPOSES ITS WORLDVIEW.”

FORMER SEC COMMISSIONER DAN GALLAGHER
MAR. 10, 2015
ABOUT LIQUIDNET...
LIQUIDNET
THE GLOBAL INSTITUTIONAL TRADING NETWORK

EQUITIES¹
• Launched 2001
• 800+ Member firms globally
• 44 markets
• $81B in average daily liquidity
• 42K shares average execution size (US)

FIXED INCOME²
• Launched Sept. 2015
• 170 Member firms in US and Europe
• $7.9B in average daily liquidity
• $2.3M average trade size

¹ Q1 2016.
² Sep 29, 2015 – Apr. 22, 2016
MARKET STRUCTURE TODAY...HOW DID WE GET HERE?
BUILDING A HOUSE OF CARDS

MARKETS EVOLVE ORGANICALLY, BUT TECHNOLOGY HAS GREATLY ACCELERATED THE RATE OF CHANGE
BUILDING A HOUSE OF CARDS

MARKETS EVOLVE ORGANICALLY, BUT TECHNOLOGY HAS GREATLY ACCELERATED THE RATE OF CHANGE
BUILDING A HOUSE OF CARDS

MARKETS EVOLVE ORGANICALLY, BUT TECHNOLOGY HAS GREATLY ACCELERATED THE RATE OF CHANGE
A HOUSE OF CARDS

THE MARKETS CAN’T KEEP UP WITH THE TECHNOLOGY AND ADAPT ADEQUATELY
A HOUSE OF CARDS

THE MARKETS CAN’T KEEP UP WITH THE TECHNOLOGY AND ADAPT ADEQUATELY

MARKET STRUCTURE BECOMES A “HOUSE OF CARDS”
BAND-AIDS AND LEAKY ROOFS

Circuit Breakers
SEC Tick Pilot
Dark pool volume reporting
Routing Analysis

The IEX Model
CAT
Exchange intraday auctions
REG ATS N proposal
THE RESULT...

☐ MARKET STRUCTURE BY DEFAULT

☐ MARKET STRUCTURE BY DESIGN
THE RESULT...

✅ MARKET STRUCTURE BY DEFAULT

☐ MARKET STRUCTURE BY DESIGN
A LITTLE BIT ON DARK POOLS...
“IT IS UNCLEAR WHETHER DARK POOLS CONTINUE TO PERFORM THE FUNCTIONS THAT WERE ORIGINALLY INTENDED.”

SEC COMMISSIONER KARA STEIN
SEP. 30, 2015
DARK POOLS

40+ Dark Pools

43% Industry volume\(^1\)

217 Average trade size\(^2\)


\(^2\)FINRA ATS data Q1 2016.
DARK POOLS

40+ Dark Pools

43% Industry volume¹

217 Average trade size²

42K LIQUIDNET AVERAGE EXECUTION SIZE in shares (Liquidnet Negotiation ATS)²

¹ Q1-2016.
LET’S TALK FIXED INCOME...
“THE MORE WE STUDY THE PROBLEM, THE MORE WE ARE CONVINCED THAT LOW MARKET LIQUIDITY IS THE ‘NEW NORMAL’ FOR CORPORATE BOND MARKETS.”

ZERO HEDGE

NOV. 10, 2015
FOR THE FIRST TIME EVER, CORPORATE BOND INVENTORIES HAVE TURNED NEGATIVE

Exhibit 1: Dealer inventories of IG bonds have fallen by much more than a simple model based on new issue volumes and mutual fund flows would imply.

Source: Lipper, Haver, FRBNY, Goldman Sachs Global Investment Research
Corporate Bonds: A Challenging Market

- Manual and voice driven
- Most securities not actively traded
- Buy side AUM doubled since 2008, while dealer inventory has decreased
- “Efficiently sourcing liquidity” and “executing in size” two of the biggest challenges

CORPORATE BONDS: A CHALLENGING MARKET

- Manual and voice driven
- Most securities not actively traded
- Buy side AUM doubled since 2008, while dealer inventory has decreased
- “Efficiently sourcing liquidity” and “executing in size” two of the biggest challenges

$7.9B
AVERAGE DAILY GLOBAL LIQUIDITY**

$3.1M
AVERAGE TRADE SIZE***

$2B*
PRINCIPAL TRADED

* As of April 29, 2016
**For Q1 2016.
*** For April 2016
MARKET SOLUTIONS TEST

☑ DOES IT CREATE MARKET EFFICIENCY?

☐ DOES IT PROMOTE THE CAPITAL FORMATION PROCESS?

☐ DOES IT INSTILL INVESTOR CONFIDENCE?
MARKET SOLUTIONS TEST

☑ DOES IT CREATE MARKET EFFICIENCY?

☑ DOES IT PROMOTE THE CAPITAL FORMATION PROCESS?

☐ DOES IT INSTILL INVESTOR CONFIDENCE?
MARKET SOLUTIONS TEST

☑ DOES IT CREATE MARKET EFFICIENCY?

☑ DOES IT PROMOTE THE CAPITAL FORMATION PROCESS?

☑ DOES IT INSTILL INVESTOR CONFIDENCE?
THE RESULT...

- MARKET STRUCTURE BY DEFAULT
- MARKET STRUCTURE BY DESIGN
THE RESULT...

- MARKET STRUCTURE BY DEFAULT
- MARKET STRUCTURE BY DESIGN
© 2016 Liquidnet Holdings, Inc. and its subsidiaries. Liquidnet, Inc. is a member of FINRA/SIPC. Liquidnet Europe Limited is authorized and regulated by the Financial Conduct Authority in the UK, is licensed by the Financial Services Board in South Africa, and is a member of the London Stock Exchange and a remote member of the Warsaw Stock Exchange and SIX Swiss Exchange. Liquidnet Canada Inc. is a member of IIROC and a member of the Canadian Investor Protection Fund. Liquidnet Asia Limited is regulated by the Hong Kong Securities and Futures Commission as a licensed dealer and a provider of automated trading services pursuant to the Securities and Futures Ordinance and is regulated by the Monetary Authority of Singapore as a Recognized Market Operator. Liquidnet Japan Inc. is regulated by the Financial Services Agency of Japan and is a member of JSDA/JIPF. Liquidnet Australia Pty Ltd. is registered with the Australian Securities and Investment Commission as an Australian Financial Services Licensee, AFSL number 312525, and is registered with the New Zealand Financial Markets Authority as a Financial Service Provider, FSP number FSP3781.

Confidential & Proprietary