

Hong Kong

APR 27 2009

London

April 24, 2009

New York

Marcia E. Asquith

**FINRA
Notice to Members**

Sydney

Office of the Corporate Secretary

Tokyo

Financial Industry Regulatory Authority

Toronto

1735 K Street, NW

Washington, DC 20006-1506

Re: Regulatory Notice 08-80, Best Execution

Dear Ms. Asquith,

I am writing on behalf of Liquidnet, Inc. Liquidnet supports the proposal by the Financial Industry Regulatory Authority (FINRA) in Regulatory Notice 08-80 to replace Rule 2320(g) (the three quote rule) with the supplementary material proposed by FINRA. We believe this proposal will significantly reduce execution costs for our institutional customers and the tens of millions of individual beneficiaries of the accounts that they manage.

Liquidnet is a broker-dealer registered with the Securities and Exchange Commission and a FINRA member. Liquidnet operates two alternative trading systems: (i) the Liquidnet Negotiation ATS, which institutions access to negotiate block trades directly with other institutions, and (ii) the Liquidnet H2O ATS, which institutions access to execute their orders automatically against order flow sent from broker-dealer smart order routers.

We agree with FINRA's statement in the regulatory notice that the three quote rule is overly prescriptive. Because of the complexities of the three quote rule, Liquidnet does not allow trading of unlisted securities.

Market makers and other intermediaries play an important role to facilitate trading in unlisted securities by providing liquidity for securities that often are illiquid. Trading systems like Liquidnet can provide additional benefits for trading unlisted securities, including the following:

- Price improvement. In Liquidnet an institution can negotiate a trade at the mid-point with another institution. If a system like Liquidnet is not available, institutions often are limited to buying at the best offer or selling at the best bid.¹ This can be a significant cost to the institution because the spreads for unlisted securities can be wide.

¹ All trades in Liquidnet H2O are executed at the mid-point of the national best bid and offer (NBBO). A significant majority of trades in the Liquidnet Negotiation ATS also are executed at the mid-point of the NBBO.

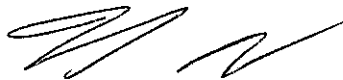
- Market impact cost. In Liquidnet, an institution can negotiate and execute an order directly with another institution, avoiding the market impact costs associated with exposing the order to a traditional market intermediary. These market impact costs can be significant given the limited liquidity in many unlisted securities.
- Block trades. Because the quote sizes for unlisted securities often are small, it can be difficult for an institution to buy or sell an unlisted security in block size. The Liquidnet Negotiation ATS addresses this problem by enabling institutions to trade blocks directly with each other.²

For these reasons, we believe replacement of the three quote rule with the proposed supplementary material will make it easier for institutions to achieve best execution for the beneficiaries of the accounts that they manage.

We understand there are unique policy concerns relating to the trading of unlisted securities that FINRA must consider. We believe that the supplementary material proposed by FINRA in the regulatory notice properly identifies and addresses those concerns in a manner that will assist institutions in achieving best execution.

We appreciate FINRA's consideration of our comments. Please contact me at (646) 674-2044 if you would like further clarification on any of the points in our letter.

Very truly yours,



Howard Meyerson, General Counsel

² The average execution size for manual negotiations on the Liquidnet Negotiation ATS is approximately 53,000 shares (Q1 2009).