

February 20, 2015

By Email

pubcom@finra.org

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

Re: Regulatory Notice 14-51; Equity Trading Initiatives: OATS and ATS reporting Requirements

Dear Ms. Asquith,

Liquidnet, Inc. (Liquidnet) appreciates the opportunity to comment on Regulatory Notice 14-51 (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 two SEC-registered alternative trading systems (ATSs): the Liquidnet Negotiation ATS, which executes negotiated transactions; and the Liquidnet H2O ATS, which provides for automated execution of orders at the mid-point of the national best bid and offer (NBBO). All orders in the Liquidnet H2O ATS are pegged to the mid-point of the NBBO (mid-peg orders). Based on Rule 605 data filed with the SEC, during 2014 Liquidnet generated average price improvement of 93.90% for covered orders for the Liquidnet H2O ATS, as compared with 9.32% average price improvement for the industry as a whole.¹

Identification of non-member broker-dealers to OATS

FINRA proposes that a reporting FINRA member, when reporting through OATS an order received from a non-member broker-dealer, identify the non-member broker-dealer. FINRA provides that the identifier for the non-member broker-dealer would either be an existing SRO-assigned identifier, such as a market participant identifier (MPID), or the Central Registration Depository (CRD) number of the non-member broker-dealer.

Liquidnet will seek guidance from FINRA as to whether this requirement applies for orders received by Liquidnet from its non-US affiliates. These non-US affiliates are registered securities dealers in other jurisdictions. They do not have SRO-assigned identifiers or CRD numbers.

¹ Data available by subscription to VistaOne Regulatory Services.

Reporting of additional order information by ATs

FINRA proposes to require ATs that exceed a specified volume threshold to report additional order information to supplement the information currently reported to OATS. All Liquidnet ATS executions involve either a negotiation process or the execution of a mid-peg order. Liquidnet will seek guidance from FINRA as to how the proposed additional reporting requirements apply to negotiated and mid-peg orders and executions. For example, Liquidnet will seek guidance as to whether FINRA would consider a negotiated order to have a displayed quantity.

Liquidnet also requests clarification on the requirement to report order re-pricing events. As noted above, all orders in the Liquidnet H2O ATS are mid-peg orders. Having to report every time that the mid-peg price changes as a result of a change in the NBBO would create a significant reporting burden for Liquidnet; at the same time, this information would provide limited value to FINRA as FINRA already has access to NBBO data. Mid-peg orders that our customers submit always have an explicit limit price (or a limit price imputed by Liquidnet where the customer fails to indicate a limit price). In either case, Liquidnet reports this limit price to FINRA through OATS, along with any updates to the limit price, as instructed by the customer. A less onerous alternative would be to require that an ATS, in connection with reporting the execution of a mid-peg order, report the best bid and best offer prices that the ATS referenced to derive the execution price.

Effective date

There should be a sufficient time period between FINRA's publication of functional specifications for the new reporting requirements and effectiveness of the rule to enable Liquidnet and other ATs to seek and obtain guidance from FINRA on the new reporting requirements.

Conclusion

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