

REPAIRING OUR INDUSTRY THROUGH MARKET-DRIVEN SOLUTIONS

SETH MERRIN

FOUNDER AND CEO, LIQUIDNET

May 3, 2016

liquidnet 

**"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

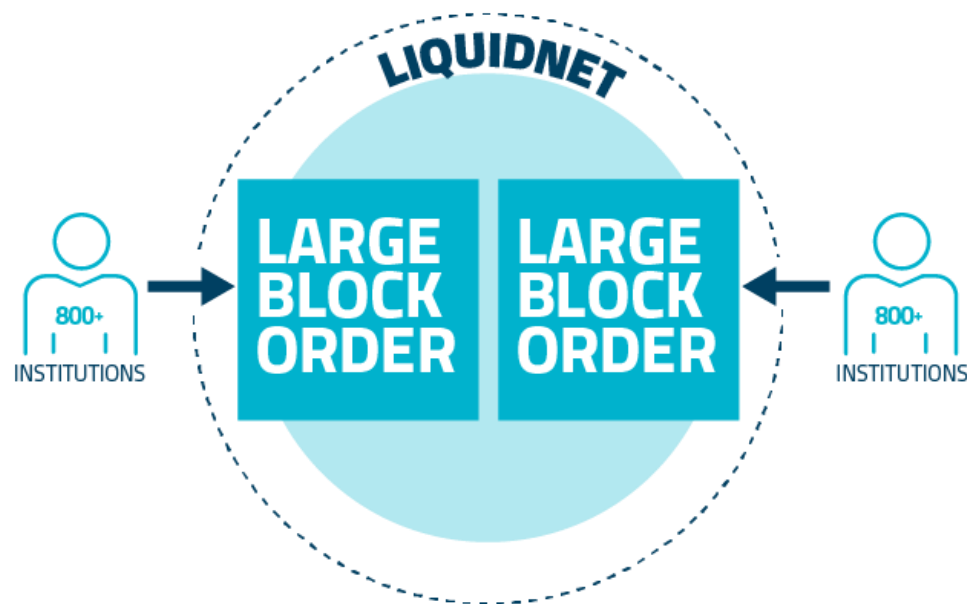
THE GLOBAL INSTITUTIONAL TRADING NETWORK

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?

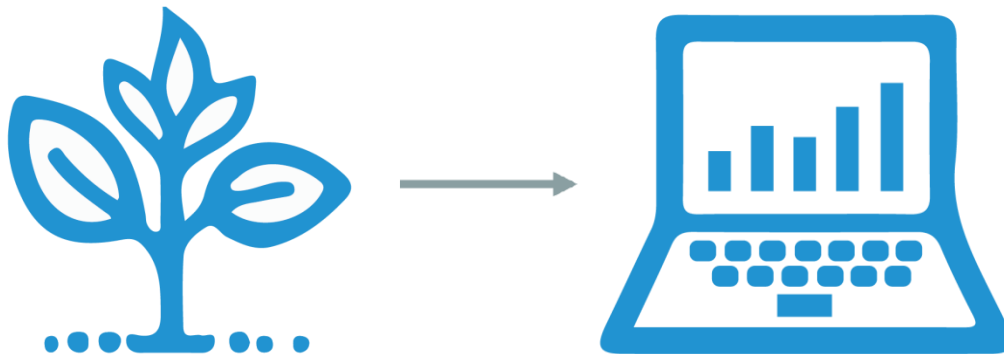
BUILDING A HOUSE OF CARDS

**MARKETS EVOLVE ORGANICALLY, BUT TECHNOLOGY
HAS GREATLY ACCELERATED THE RATE OF CHANGE**



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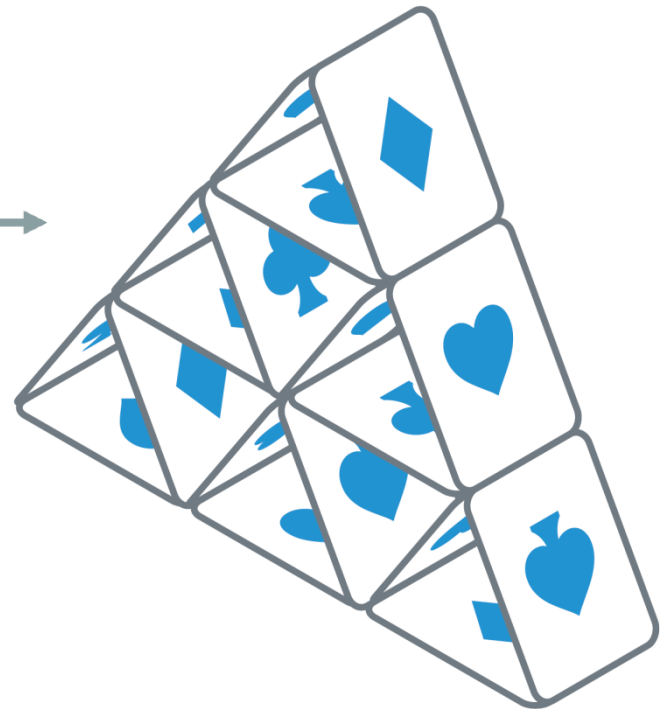
THE MARKETS CAN'T KEEP
UP WITH THE TECHNOLOGY
AND ADAPT ADEQUATELY



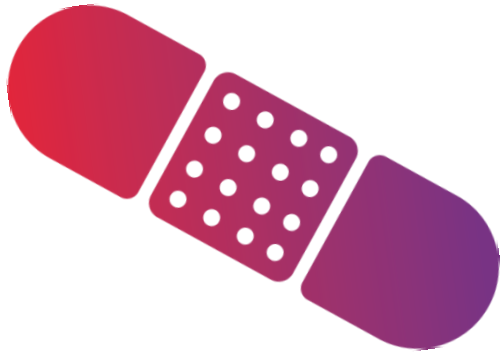
A HOUSE OF CARDS

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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

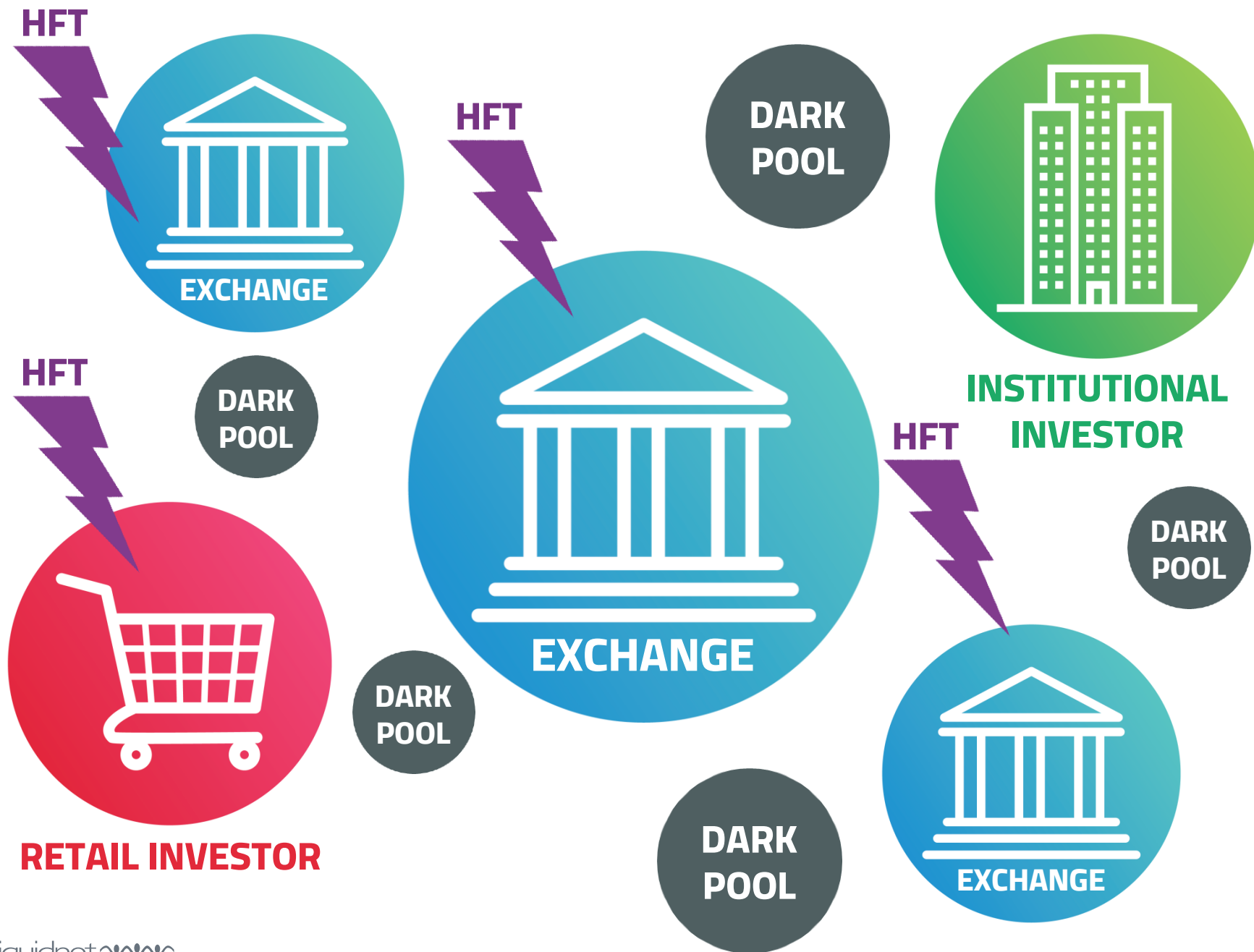




RETAIL INVESTOR







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 volume¹

217

Average trade size²

¹Tabb Group: "US Market Structure Report: Q4-2015"

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)**

** 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."**

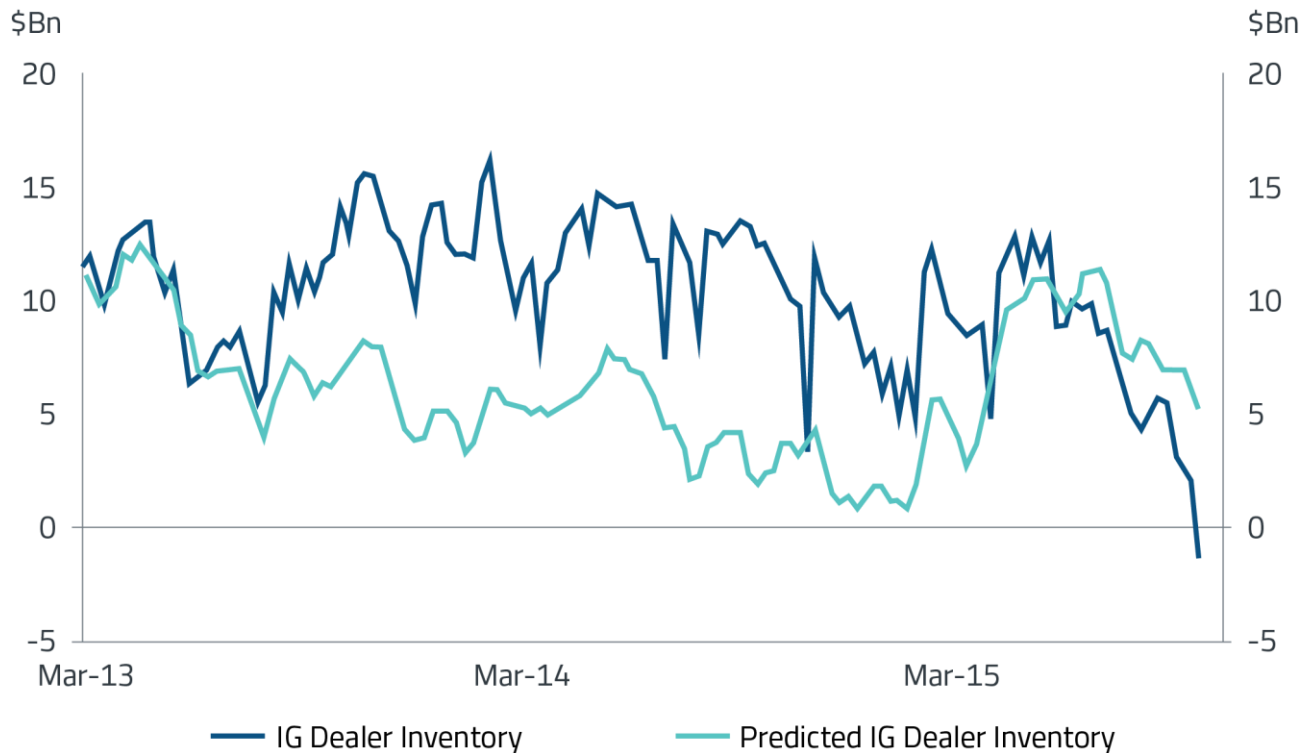
ZERO HEDGE

NOV. 10, 2015

FIXED INCOME

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**

Source: TABB Group, “The Future of Fixed Income: Laying Down Foundations for a New Market Structure”, March 2014, and “US Corporate Bond Market Liquidity: A Riddle, Wrapped in a Mystery, Inside a Riddle”, September 2014; Wall Street Journal, “Trading Firm Liquidnet Preps Bond Venue”, Friday August 8, 2014

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\$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?

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