

Lifeguarding the pool: how does it work?



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Since our launch in April 2001,

Liquidnet has diligently protected the integrity of our liquidity. We proactively monitor Member behavior and thoroughly investigate complaints in an effort to build the most secure trading environment possible—a key part of our success.

What do we proactively monitor?

Liquidnet looks for patterns of behavior over a period of time that deviate significantly from the Community average. For example, if a Member consistently:

- Declines an invitation to negotiate.
- Breaks a match after a contra goes active.
- Does not proactively respond to matches.
- Goes outside once an indication is matched.
- Submits a proposal or counter-proposal outside the quote.
- Submits a proposal or counter-proposal below the Member's tolerance.
- Trades on both sides of the market.
- Is suspected of manipulating a price during a negotiation.
- Changes an indication's quantity prior to and post complaint time.

How do we investigate complaints?

When a Member files a formal complaint, Liquidnet initially investigates it based on current market data. If the immediate event can't be explained, we then use historical data to determine whether or not the offending Member engages in the same pattern of behavior more frequently than the Community averages.

Member Behavior Review Board(MBRB)

Our Member Behavior Review Board meets weekly and acts as an independent and unbiased panel that monitors Member trading activities, reviews Member complaints and determines appropriate disciplinary actions.

What actions do we take?

If a Member shows trading patterns that negatively impact the Community, they are put on a watch list. Relationship Managers communicate to the Member the issue that caused them to be added to the list, and our systems closely monitor their behavior to confirm that they have positively changed their trading patterns. If the Member conforms to the Community norm for a period of three months, they are removed from the watch list. If not, the Member is suspended from trading within Liquidnet.

Current Statistics

Since we began trading seven years ago, we have suspended 103 Member firms globally from Liquidnet for various reasons (as of June 30, 2008). These firms represent approximately \$1 trillion in assets under management (AUM).

Over the last four quarters alone, Liquidnet has suspended 26 Member firms. Collectively, these firms represent approximately \$66 billion AUM. Seven Members were suspended in the 2nd quarter of 2008.

We are proud that 99.9835% of our nearly 1.3 million matches (in 2007) did not generate a Member complaint regarding counter-party behavior. The conclusion is clear: our Members come to Liquidnet to trade stock, not to search for information. And while our System may be categorized as a dark pool, our Members see clearly what is happening to their orders at all times.