



Lifeguarding the pool

Dark pools and your order. To a buy-side trader, there may be nothing more unsettling than not knowing what is happening to an order once it's given to a broker, dropped into an algorithm or entered into an electronic trading venue. The latest concern centers on dark pools, and how traders can "game" or "ping" these systems to gain an information advantage.

Are dark pools safe? We know one that is.

Protecting the integrity of your liquidity. Since our launch in April 2001, Liquidnet has guarded against this kind of behavior—our decision to proactively monitor Member behavior in an effort to build the securest trading environment possible has been a key part of our success. We offer a safe trading venue with Membership limited to buy-side traders only.

The highest industry standard. Liquidnet has a strictly enforced, comprehensive set of protocol standards. This helps make us a trusted trading venue for executing anonymous trades that are up to a thousand times larger than the average trade size on stock exchanges around the world.

Positive action required. Each of the 500+ Member firms in our community is required to maintain a positive action rate (PAR) of 50%. This minimum PAR not only serves to limit inactivity that can stifle the network benefits of Liquidnet, it also serves as a potential indicator of how a trader is using the system.

Discipline and suspensions. Since we began trading seven years ago, we have suspended 103 Member firms globally, collectively representing \$1 trillion in equity assets under management (as of June 30, 2008). For the sake of the community, we will directly address any Member that does not follow our community protocol, regardless of their size.

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

We are proud that 99.9835% of our nearly 1.3 million matches (in 2007) did not generate a Member complaint regarding counterparty 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.

Jump in the pool. The liquidity is great.

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