PRESS RELEASE

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LARGE-IN-SCALE, DARK VOLUMES INCREASE AS BUY-SIDE FIRMS FOCUS ON DELIVERING BEST EXECUTION POST-MIFID II

Liquidnet report reveals how MiFID II has impacted trading behavior in Europe to date and reviews the potential for further change given the rise in periodic auctions and SI volumes, contrary to the regulatory intention of increasing liquidity on lit markets.

London, New York; 7 June 2018: Liquidnet, the global institutional trading network, today published details of its survey of buy-side traders on the impact of regulatory change on their ability to source liquidity in European equity markets. According to the report, 88% of firms interviewed see the shift to block trading in the dark as a positive outcome of MiFID II. While the regulatory focus remains on lit price formation, the main challenge for institutional asset managers is the ability to uncover liquidity given their need to execute in size. The outcome when trading the 'parent' order can be far more impactful than any marginal price improvement at a 'child' fill level when taking all trading costs into consideration of best execution, implicit as well as explicit.

As well as the recent shift back to Large-in-Scale dark trading, almost 70% of respondents consider periodic auctions to be a useful market construct post the introduction of the double volume caps (DVCs) but half also recognize the need for further regulatory tightening. Although periodics may offer added protection, they also make it harder to identify addressable and non-addressable liquidity and are seen by certain regulators as circumventing the original premise of MiFID II.

The report also notes that interactions with SIs have led to an increase in their share of block liquidity above the level of previous BCNs, delivering mixed results for the buy-side. As not all SI constructs operate in the same manner, buy-side firms in the report noted the need for each firm to establish which operating model works for its flow and when. Other survey participants flagged a potential market imbalance due banks' increasing appetite for risk in the form of rising SI activity.

Rebecca Healey, head of market structure, Liquidnet EMEA, and author of the Liquidnet University report, entitled *A Buy-Side Perspective: Post MiFID II*, comments: "Lit markets operated by exchanges offer a wide range of order types, some of which are designed to attract high-frequency trading. This potentially creates a challenge for the buyside trader. The argument for trading institutional-sized orders in the dark is a clear one; to protect the end- investor from negative market impact due to unnecessary information leakage. However, the argument for trading sub-LIS orders in the dark may be just as valid for those asset managers looking to improve execution performance for a portfolio rebalancing or when facilitating institutional crosses.

The reality is that asset managers need multiple methods of execution available given the variety of orders, differing market conditions, and execution objectives required. Hence the rise in use of periodic auctions and SIs as alternative methods of sourcing liquidity."

Highlights from the report include:

1. Fifty-four percent of respondents are in favor of implementing a minimum order size in periodic auctions and 49% of respondents a minimum pre-matching period based on the liquidity of the instrument.
2. Sixty-five percent of respondents believe they can choose whether their broker routes to its SI or onto the open market, but a third remain unsure of routing practices given their inability to monitor broker routing effectively.
3. Just 19% of respondents see the introduction of DVCs as negatively impacting their performance given the introduction of new alternatives to trading in the dark.
4. Just 12% of respondents believe that MiFID II has increased the level of volume transparency in periodic auctions.

Mark Pumfrey, Chief Executive Officer of Europe at Liquidnet, comments: "MiFID II looks likely to remain a work in progress for some time, with regulatory work continuing regardless of the Brexit outcome. The buy-side has effectively been given more responsibility and control under MiFID II than ever before. The Liquidnet platform and our suite of Virtual High Touch trading tools are helping our Members navigate this increasingly complex landscape and deliver best execution for their end-investors."

Survey Methodology

Liquidnet's Buy-Side Perspectives Survey was developed to understand the impact of the MiFID II regulation on the buy-side's ability to source liquidity in European equity markets. The results from this survey are based on 58 detailed interviews with heads of trading/dealing across Liquidnet's member network of asset management firms throughout the UK and Europe during April 2018.

ABOUT LIQUIDNET

Liquidnet is the global institutional trading network where more than 850 of the world's top asset managers and other like-minded investors come to execute their large trades with maximum anonymity and minimum market impact. As the global leader in large block trading, Liquidnet provides access to unique trading opportunities in 44 markets across five continents. Liquidnet approaches every market with the same bold vision to provide a better, more efficient way to trade on a massive scale. It is this focus on size, combined with the strength of its network, disruptive technology, and commitment to transparency, that is revolutionizing the way equities and corporate bonds are traded. For more information, visit www.liquidnet.com and follow us on Twitter @Liquidnet.