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August 13, 2010

By e-mail

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581
Attention: Office of the Secretary

Re: Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues

Ladies and Gentlemen,

We had the opportunity to view the webcast of the August 11, 2010 meeting of the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues. During the hearing, the individuals testifying, the committee members, the participating Commissioners and other Commission personnel put forth a number of worthwhile suggestions that, if implemented, could help prevent the recurrence of a market disruption such as the one that occurred on May 6, 2010. Liquidnet[1] would like to comment on one specific issue that was discussed during the hearing – whether price limits, stop order protections, price banding and other controls designed to prevent a recurrence of the events of May 6 could be implemented in an equity market with multiple trading venues.

We do not see any issue with implementing these types of protections across multiple equity trading venues. The more complex issue is implementing them across asset classes.

[1] Liquidnet operates two alternative trading systems that facilitate execution of institutional block orders with reduced market impact costs. BrokerEdge™ has ranked Liquidnet as the #1 broker for institutional execution quality for each of the past two years, which means reduced trading costs, and higher investment returns, for the tens of millions of U.S. households that invest in mutual funds. Tradewatch, *Pensions & Investments*, March 8, 2010, http://www.pionline.com/apps/pbcs.dll/article?AID=/20100308/CHART/100309924&crit=liquidnet&template=printart (accessed August 12, 2010). Investment Technology Group "ITG Broker Edge™ Core Broker Report" for U.S. trades for the four quarters ended December 31, 2008, cited in April 30, 2009 press release, "Liquidnet Ranked #1 in 62% of all Execution Categories According to ITG Broker Edge™ Core Broker Report". We are pleased to report that we did not have one customer issue on May 6, as our customers continued to execute trades only within their limit prices.

Liquidnet Inc. 498 Seventh Avenue, 15th Floor New York, NY 10018

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There was a general consensus at the hearing that the SEC's recent approval of individual stock circuit breakers on a pilot basis, and the recent SRO rule proposals to expand the pilot to additional securities, have been helpful and appropriate steps in response to the events of May 6. There also was support for the recent efforts to provide greater certainty relating to clearly erroneous trade policies and practices. There also was a general consensus at the hearing that further steps should be considered. Chairman Schapiro specifically noted at the hearing that the SEC and CFTC are considering "whether other steps are appropriate to reduce the risk of sudden disruptions and clearly erroneous trades."

We want to highlight three specific proposals that were raised at the August 11 hearing and discuss how they could be implemented across multiple equity trading venues.

1. Price limits

Price limit functionality can protect an order from executing at an erroneous price if there is a momentary drop in the market, while allowing the order to get executed if the drop in the market is of longer duration.

There are numerous ways in which a price limit system could be implemented. Let's assume, as an example, that the SEC determines to implement a price limit system for individual stocks where a price limit is triggered when offers in a stock fall below a pre-designated limit. If a price limit system like this were implemented for individual equities, the securities information processor (SIP) would automatically determine that a price limit has been triggered and transmit a message to that effect as part of its market data feed. The trading venues, all of whom subscribe to the market data feed, would receive this message and automatically apply system restrictions to comply with the price limit requirements. This is similar to the current system for trading halts where the SIP notifies trading venues and other market data feed recipients when trading halts have been triggered.

2. Price collars (price bands)

Another suggestion raised at the August 11 meeting was to implement price collars (also referred to as "price bands") to protect market orders, including stop loss market orders, from being executed at prices substantially away from the current market. Assuming that that the collars are not set at too narrow a range, there would appear to be limited downside to a price collar system. This is because customers presumably would have the ability to override the price collars by submitting limit orders instead of market orders and expressly designating limit prices that are wider than the price collars (though we would not expect this to be a common practice).

There would not be any issue with trading venues implementing uniform price collars.

3. Stop order protection

The CME currently provides functionality to pause the execution of stop orders in certain circumstances. This is similar to price limit functionality, except that it applies specifically to stop orders. One advantage of this type of functionality is that it can protect stop orders from executing at an erroneous price if there is a momentary drop in the market, yet the stop order can get executed if the drop in the market is of longer duration. As in the case of price limits and price collars, we see no issue with all equity trading venues implementing consistent stop order protections if the regulators determine that this is an appropriate step to take.

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The more complicated issues will be coordinating protections across multiple related asset classes, determining the appropriate protections and thresholds to be provided for different asset classes and different categories of stocks, and determining the appropriate balance between protections implemented by individual markets and market-wide protections. If the regulators and the exchanges agree on the specific protections to be implemented, implementing the protections across all equity trading venues would not be an issue.

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The issue of how best to protect against sudden market disruptions is complex, and the solution will involve trial and error and ongoing recalibration. In this regard, the SEC and CFTC pilot approach is the appropriate way to proceed. We are confident that if the regulators continue to work with the exchanges and other market participants to address these issues, they have the opportunity over time to implement changes to prevent the recurrence of market disruptions such as those that occurred on May 6th.

We appreciate the opportunity to comment on this issue.

Very truly yours,

Howard Meyerson, General Counsel

Vlad Khandros, Market Structure and Public Policy Analyst