

Marisha Mistry, Liquidity  
Global Marketing & Communications  
1 646 674 2248  
[mmistry@liquidity.com](mailto:mmistry@liquidity.com)

Sybille Mueller, Streets Consulting  
Streets Consulting for Liquidity EMEA  
+44 (0)20 7959 2235  
[sybille.mueller@streetsconsulting.com](mailto:sybille.mueller@streetsconsulting.com)

## LIQUIDNET STUDY FINDS DARK TRADING ADJUSTING AHEAD OF MIFID II

**Report finds buy side favouring large-in-scale venues over broker dark pools**

**LONDON, November 8, 2017** – Liquidity, the global institutional trading network, today published *Shape Shifting: Accessing the Dark Post MiFID II* research on how buy-side traders plan to trade in the dark once broker dark pools are no longer admissible. Today, 65% of respondents see buy-side crossing networks as their most effective venue for accessing the dark versus 20% who still prefer broker dark pools.

This is set for inevitable further change as MiFID II marks the end of the buy side's ability to use broker dark pools from January 2018. In order to operate post MiFID II, sell-side brokers will either need to execute on a trading venue or register as a Systematic Internaliser (SI). However, over two-thirds of respondents remain uncertain as to how the SI regime will operate in practice and views remain split on whether the prevalence of High Frequency Trading market making activity within the SI space will deliver optimal execution. The majority of those interviewed for the report (67%) view the dark aggregation of SIs as a value-added execution service they will look to their brokers to provide.

"Understanding where and how to trade in this new complex landscape is the number one priority for over 60% of respondents. Some firms are already adjusting their behavior by switching from broker dark pools to alternative LIS venues to ensure they can achieve optimal execution," said Rebecca Healey, Head of EMEA Market Structure at Liquidity and author of the report.

Study results show that market participants plan to increase the proportion of large-in-scale (LIS) activity in order to benefit from the waiver on Double Volume Caps (DVCs). This change in behaviour could lead to a reduced number of instruments being capped out by DVCs. LIS volumes have increased in the last year from 5% to 10% of all dark volumes traded. Currently 51% of instruments will be impacted by DVC based on ESMA calculations<sup>1</sup> and in Q3 2017, an additional 30% of instruments were within 1% away from the 8% threshold. If firms continue to change their trading behaviour in this way, there is an opportunity for them to avoid being impacted by the DVC.

"Now that the burden of demonstrating best execution has moved to the buy side, more traders are looking for an improvement in the quality of their dark executions. As a result, the number of respondents planning to focus on large-in-scale trading has increased to 72% in 2017, up from 43% the previous year," Healey continued.

---

<sup>1</sup> Using the proposed 12-month backwardation of adjusted trading volumes against LIS bands and excluding non-interactable liquidity

### Additional highlights from the report include:

- **46% of participants have seen an improvement in the quality of their dark pool executions in the last year** as the proportion of large-in-scale as a percentage of dark trading has also increased to 10% of all dark trading.
- However, the future landscape remains very unclear, with **90% seeing inconsistencies in SI models** and over two-thirds not confident about how the SI regime will operate post MiFID.
- **49% are less concerned with whom they execute provided they retain transparency and control over how executions occur.**
- **48% of respondents plan to execute small- and mid-cap stocks with regional specialist brokers** rather than the super bulge brackets once the DVC is introduced.

“As control of execution shifts from sell- to buy-side, so too will information flows and the ability to successfully navigate a shifting liquidity landscape morphing under new regulatory requirements,” said Mark Pumfrey, Head of Liquidnet Europe. “Analysis of execution performance requires a new skillset on both the buy and sell sides. Dark trading will not flip back to the lit. It will shift shape into execution constructs that are more complex and dynamic, requiring alternative skillsets and greater technology to navigate successfully.”

### Survey Methodology

*Liquidnet’s Shape Shifting Survey was developed to understand how heads of dealing plan to access the dark post MiFID II, once broker dark pools are no longer admissible. The results from this survey are based on 51 detailed interviews with Heads of Trading/Dealing across Liquidnet’s Member network of asset management firms throughout North America and Europe. Participants were polled during August 2017, with 52% respondents from the UK, 24% from Continental Europe, and 24% from the US.*

### ABOUT LIQUIDNET

Liquidnet is the global institutional trading network where more than 875 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 45 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](http://www.liquidnet.com) and follow us on Twitter @Liquidnet.

© 2017 Liquidnet Holdings, Inc. and its subsidiaries. Liquidnet, Inc. is a member of FINRA/SIPC. Liquidnet Europe Limited is authorized and regulated by the Financial Conduct Authority in the UK, is licensed by the Financial Services Board in South Africa, and is a member of the London Stock Exchange and a remote member of the Warsaw Stock Exchange and SIX Swiss Exchange. Liquidnet Canada Inc. is a member of the Investment Industry Regulatory Organization of Canada and a member of the Canadian Investor Protection Fund. Liquidnet Asia Limited is regulated by the Hong Kong Securities and Futures Commission for Type 1 and Type 7 regulated activities and is regulated by the Monetary Authority of Singapore as a Recognized Market Operator. Liquidnet Japan Inc. is regulated by the Financial Services Agency of Japan and is a member of JSDA/JIPF. Liquidnet Australia Pty Ltd. is registered with the Australian Securities and Investment Commission as an Australian Financial Services Licensee, AFSL number 312525, and is registered with the New Zealand Financial Markets Authority as a Financial Service Provider, FSP number FSP3781.