

MARKETAXESS CANADA COMPANY

NOTICE OF PROPOSED CHANGE AND REQUEST FOR COMMENT

MarketAxess Canada Company (**MA**) has announced plans to implement the change described below shortly after regulatory approval of the change is granted by the Ontario Securities Commission (the **OSC**). MA is publishing this Notice of Proposed Change and Request for Comment in accordance with the "Process for the Review and Approval of Rules and the Information Contained in Form 21-101F2 and the Exhibits Thereto" (the **ATS Protocol**). Market participants are invited to provide the OSC with comments on the proposed change.

Feedback on the proposed change should be in writing and submitted by July 20, 2020 to:

Market Regulation Branch
Ontario Securities Commission
22nd Floor
20 Queen Street West
Toronto, Ontario M5H 3S8
Fax: (416) 595-8940
e-mail: marketregulation@osc.gov.on.ca

And to:

Scott Pintoff, General Counsel
MarketAxess Canada Company
55 Hudson Yards, 15th Floor
New York, New York 10001
Email: spintoff@marketaxess.com

And to:

Lauren Carroll, General Counsel of LiquidityEdge LLC
MarketAxess Canada Company
55 Hudson Yards, 15th Floor
New York, New York 10001
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Feedback received will be made public on the OSC website. Upon completion of the review by OSC staff, and in the absence of any regulatory concerns, notice will be published to confirm the completion of OSC staff's review and to specify the intended implementation date of the change.

If you have any questions concerning the information below, please contact Scott Pintoff, General Counsel, at 212-813-6347.

A. Detailed Description of the Proposed Significant Change

MA is proposing to provide Canadian Clients, as defined below, access to the LiquidityEdge electronic fixed income trading platform (**LE Platform**) operated by its U.S. affiliate LiquidityEdge LLC (**LE**) for purposes of trading non-Canadian fixed income securities (the **Proposed Change**). The Proposed Change is a significant change subject to public comment under the ATS Protocol. An amendment to MA's Form 21-101F2 in respect of the Proposed Change was filed with the OSC.

MA is proposing to provide Canadian Clients access to the LE Platform operated by its U.S. affiliate LE for purposes of trading USTs (as defined below).

Background

MarketAxess Holdings Inc., MA's and LE's ultimate parent company, acquired the LE Platform in November 2019. The LE Platform is an executable order book for electronic trading in U.S. Treasuries (**USTs**). The LE Platform is currently operated by LE. LE is registered with the U.S. Securities and Exchange Commission (**SEC**) as a broker-dealer and is a member organization of the Financial Industry Regulatory Authority (**FINRA**).

MA has requested an exemption from Part 6.3 of National Instrument 21-101 – *Marketplace Operation* (**NI 21-101**) to be permitted to offer Canadian Clients the ability to trade in certain non-Canadian fixed income securities, including USTs.

Upon grant of the requested exemption and regulatory approval of the Proposed Change, MA will provide Canadian Clients access to the LE Platform operated by LE, for the trading of non-Canadian fixed income securities.

Access by Canadian Clients to the LE Platform

For the purpose of accessing the LE Platform, a customer located in Canada will be a participant of MA ATS, as defined below. MA will be the "client-facing" entity for Canadian Clients. Canadian Clients will enter into a supplemental agreement with MA that provides for the routing of Canadian client orders to LE. LE will continue to be responsible for the execution of trades in USTs on the LE Platform. An intercompany agreement will be entered into between MA and LE in respect of the routing arrangement. Orders transmitted by a Canadian Client for a fixed income security traded in the United States will be routed and executed in accordance with the terms of the intercompany agreement.

We use the following defined terms herein:

Defined Term	Definition
Canadian Clients	Customers located in Canada that are "permitted clients" as defined in National Instrument 31-103 – <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> and whose orders for non-Canadian fixed income securities are routed by MA ATS for execution on the LE Platform

Defined Term	Definition
Fedwire	Settlement system of central bank money operated by the U.S. Federal Reserve Banks
FICC	Fixed Income Clearing Corporation
FINRA	Financial Industry Regulatory Authority
ICBC	Industrial and Commercial Bank of China
IIROC	Investment Industry Regulatory Association of Canada
LE	LiquidityEdge LLC, also doing business under the name "MarketAxess Rates"
LE Platform	The LE UST trading system operated by LE
MA	MarketAxess Canada Company
MA ATS	Canadian ATS operated by MA
SEC	U.S. Securities and Exchange Commission
T-Bills	U.S. Treasury Bills
UST	U.S. Treasury securities

Additional information regarding MA ATS and affiliates

MA is a registered investment dealer in Ontario, Quebec, British Columbia, and Alberta, and a member of IIROC. MA operates the MA ATS, a platform for the trading of fixed income securities.

MA is an affiliate of MarketAxess Corporation. MarketAxess Corporation operates a platform for the trading of fixed income securities in the United States, is registered as a broker-dealer under the United States *Securities Exchange Act of 1934*, and is a FINRA member. MA is also an affiliate of MarketAxess Europe Limited (together with MarketAxess Corporation, the **Affiliate Platforms**), which has received regulatory approval from the Financial Conduct Authority in the United Kingdom to operate as a multilateral trading facility. MA and the Affiliate Platforms are all wholly-owned subsidiaries of MarketAxess Holdings Inc., a publicly-listed global holding company.

The routing of orders by MA ATS on behalf of Canadian Clients for USTs to the LE Platform will not affect the existing operations of the MA ATS.

Canadian Clients

Canadian Clients consist of sophisticated institutional entities, namely registered securities dealers, banks, asset managers, professional trading firms and primary and regional dealers, who are "permitted clients" as defined in National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

Securities Traded on the LE Platform

The following UST securities may be traded on the LE Platform: On the Runs, Off the Runs, T-Bills and guaranteed spread products.

Available LE Interface and Trading Models

Through the LE graphical user interface (**GUI**), Canadian Clients can access a trading application that enables access to custom liquidity via different execution styles and trading models in an all-in-one trading environment (dealer to dealer, dealer to customer, customer to customer). All participants can specify the type of liquidity they wish to interact with.

The LE Platform offers two trading models: fully-disclosed (meaning the identity of the liquidity consumer is disclosed both pre-trade and post-trade to liquidity providers) and anonymous (meaning counterparties can interact with the liquidity on an anonymous basis).

The LE Platform facilitates trading of USTs between liquidity providers and liquidity consumers. Clients can access an order book that comingles liquidity options from various liquidity providers based upon the clients' trading and execution choices. A directed streaming order book exists when a liquidity provider continuously sends firm prices and sizes at which it is willing to both buy and sell a particular UST to liquidity consumers. Often liquidity providers will do this for every major On the Run issue, and provide different pricing for different sizes. The liquidity consumer receives both a price and size that is tailored for them, without submitting a request.

The LE Platform offers three settlement options:

1. **LiquidityEdge Direct.** This model provides fully disclosed trading between counterparties on the platform through peer-to-peer streaming. Each counterparty trades directly with each other and each utilizes its own settlement agent.
2. **LiquidityEdge Select.** This model provides anonymous trading through a directed streaming order book, as described above. LE acts as riskless principal for FICC settlement. ICBC, a member of FICC, acts as fully disclosed clearing broker and settles all trades made using this model at FICC and Fedwire in a principal capacity. FICC is registered with, and regulated by, the SEC. FICC provides real-time pair-off, clearing, risk management and netting for UST trades.
3. **LiquidityEdge Connect.** This model provides anonymous trading for counterparties through a directed streaming order book, as described above. State Street Global Markets acts as executing broker and settlement counterparty through its clearing services, and provides post-trade fund allocation services.

In the trade flow for the LiquidityEdge Select and Connect models, liquidity consumers can access an order book that comingles both of these liquidity options. A liquidity provider submits firm bids/offers into the LiquidityEdge order book anonymously. A liquidity consumer views available liquidity, and can aggress (hit or lift) a resting order or place a passive order (bid or offer) in the order book. The riskless principal faces the liquidity consumer and liquidity provider at point of match. Post trade notifications are sent to the riskless principal, the liquidity consumer and the liquidity providers, settlement occurs in the ways explained in the applicable LiquidityEdge Select and Connect sections above. See also illustration of trade and settlement flow for LE Select and Connect at Appendix A. It is anticipated that Canadian Clients will act primarily as liquidity consumers on the LE Platform, but there may be some interest from some Canadian Clients to act as liquidity providers as well.

Orders

Each order entered into the LE Platform is considered a firm order, unless determined to be clearly erroneous, and is actionable and eligible for execution at any time based on its terms and conditions until such order has expired by its terms, is cancelled, changed or is executed. Once executed, it is binding on the subscriber who placed that order.

LE maintains a full audit trail of every order submitted to the LE Platform.

Order Types

See Appendix B for a description of order types available on the LE Platform.

Matching Logic

The default priority rules for orders sent to the LE Platform are (1) price, (2) liquidity provider priority override¹, (3) size (full fill first), and (4) time.

B. Expected Implementation Date

MA is aiming to implement the Proposed Change shortly after regulatory approval of the Proposed Change is granted, after satisfying the requirements set forth in Section 3.2(1) of NI 21-101, including the expiration of a 45-day notice period.

C. Rationale for Proposed Change

The Proposed Change will provide Canadian participants with an additional venue for trading non-Canadian fixed income securities and access to additional settlement options and order types.

D. Impact of the Change on Market Structure for Subscribers, Investors and Capital Markets

The Proposed Change is not expected to have any impact on market structure for subscribers, investors and capital markets. The Proposed Change is consistent with the existing regulatory framework within Canada and will provide additional liquidity to Canadian Clients.

E. Expected impact of the Significant Change on MA's Compliance with Ontario Securities Law and the Requirements of Fair Access and the Maintenance of a Fair and Orderly Market

MA foresees no negative impact with respect to compliance with Ontario securities law and the requirements for fair access.

¹ This refers to the ability of participants to specify their matching rules, such as liquidity providers they wish to prioritize.

In particular, the LE Platform would be made available on an equal basis to all Canadian Clients, in accordance with the “fair access” requirements set out in section 5.1 of National Instrument 21-101 - *Marketplace Operation*.

MA will take reasonable steps to monitor order entry and trading activity on the LE Platform for compliance with applicable operational policies and procedures, as well as to encourage compliance with securities laws and the rules of MA’s regulatory services provider (IIROC), just as it does for all order types, in accordance with the “fair and orderly markets” requirements set out in section 5.7 of NI 21-101 and the guidance set out in subsections 7.6(2) and (3) of 21-101CP.

F. Consultations

MA consulted with certain customers, including banks, primary and regional dealers, before proceeding with the Proposed Change. Some of these customers were US-based that are already trading on the LE Platform and want their affiliates in Canada to also utilize the LE Platform. Additionally, there have been Canadian-based banks that have expressed interest in becoming customers. The proposed change was approved by the management of MA.

G. Systems Modifications Required by Subscribers or Service Vendors

The Proposed Change will not require any work by existing subscribers or vendors to modify their systems. It would only allow customers in Canada, a new jurisdiction for the LE Platform, to utilize the existing platform and it will not have any effect on existing subscribers and vendors of either the MA ATS or the LE Platform. The proposed change is not a material change to technology requirements regarding interfacing with or accessing the marketplace within the meaning of Part 12.3 of NI 21-101 because all orders transmitted by a Canadian Client for USTs will be routed by MA ATS and executed on the LE Platform.

H. Alternatives Considered

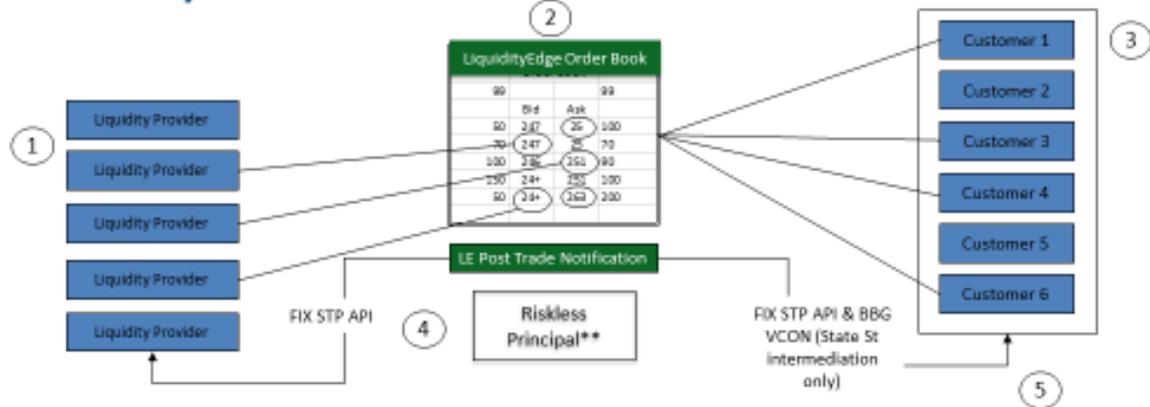
No alternatives to the Proposed Change were considered.

I. Does the Significant Change Introduce a Feature that Currently Exists in Other Markets or Jurisdictions?

The Proposed Change introduces a feature that is currently offered by LE in the United States and in other jurisdictions.

Appendix A

LE Select / Connect – Trade and settlement flow



1. Liquidity Provider submits firm Bids/Offer into the LiquidityEdge order book (anonymous). Liquidity Providers cannot cross with each other.
2. All participants can specify the type of liquidity they wish to interact. **Order book is anonymous**
3. Customer views available liquidity, can aggress (hit or lift) a resting order or place a passive order (bid or offer) in the order book
4. The riskless principal faces the customer and Liquidity Provider at point of match
5. Post trade notifications are sent to the riskless principal, the customer and the Liquidity providers, settlement occurs in the usual way



** Riskless Principal = LiquidityEdge (fully disclosed clearing broker - ICBC) / State Street Global Markets

Appendix B

ORDER TYPES

An Order is a request to buy/sell or Bid/Offer at a given price. All Orders enter the order book of the LE Platform

Market Order

A Market Order is an Order to buy or sell a security at the market Bid or Offer price. When placing a Market Order, that Order is released to the marketplace and fulfilled at the best available Bid or Offer price. A Market Order provides no price protection, and may be filled at a price far lower/higher than that which was displayed when the Order was placed. Market Orders may only be enabled at the request of an Authorized User of the LE Platform and are not activated as part of the default set up of the LE Platform.

Limit Order

A Limit Order is an Order to buy or sell an instrument at (or better than) a price (the limit price) that the participant specifies.

For all On-The-Run and Off-The-Run Treasury notes and bonds, a Limit Order “buy” shall only be executed at or below the participant’s specified price. For all On-The-Run and Off-The-Run Treasury notes and bonds, a Limit Order “sell” shall only be executed at the participant’s price or higher.

For T-Bills, a Limit Order “buy” shall only be executed at or above the participant’s specified discount rate. For T-Bills a Limit Order “sell” shall only be executed at the participant’s specified discount rate or lower.

For When Issued (**WI**) notes and bonds, a Limit Order “buy” shall only be executed at or above the participant’s specified Yield to Maturity. For WI notes and bonds, a Limit Order “sell” shall only be executed at the participant’s specified rate or lower.

Iceberg Order

An Iceberg Order is a Limit Order in which the displayed amount is less than the total Order amount, thus hiding the larger amount from other market participants. By hiding the larger size, Iceberg Orders provide less information leakage to other participants, and may reduce price movements caused by opportunistic behavior on the part of other participants. An Iceberg Order can be matched for the full displayed amount (or partial) up to the total Order amount. If an Iceberg Order has been partially filled, the entire remaining amount can match on the Platform (if there is an aggressing Order that can match the remaining amount). If an Iceberg Order is partially filled, another amount equal to the display amount (or the entire remaining amount if the display amount is greater than the remaining amount) is displayed to participants.

Stop Limit Order

A Stop Limit is an Order to submit a buy or sell Limit Order when the user-specified stop trigger price is attained or penetrated. A Stop Limit Order becomes a Limit Order when triggered. A Stop Limit Order has two components:

- a) the stop price; and
- b) the limit price.

When a Stop Limit trigger price is attained or penetrated, the Stop Limit Order becomes executable and enters the market as a Limit Order at the limit price. A Stop Limit reduces the price risk associated with a stop Order where the execution price cannot be guaranteed (Market Order), but exposes a participant to the risk that the Order may not be filled, even if the stop price is reached.

For example: A sell Stop Limit Order with a trigger rate of 100-00 and a Limit Rate of 99-31 will become active if the stop price is reached. A sell Stop when the price reaches 100-00 shall execute at any price better (higher) than 99-31 (Max Slippage of 1/32). If the market gaps move rapidly through the price of 99-31, there is a likelihood that the Stop Limit Order may only partially fill, or not fill at all if there is insufficient liquidity at prices of 99-31 or higher.

MidT Order

A MidT Order is an Order to buy or sell for a specified size. Buy and sell interest matches on a continuous basis. An initial mid-rate is calculated by the platform on a continuous basis and applied to the trade at point of match. A subsequent mark-out rate is calculated and applied by the platform to the trade. The participant may specify a maximum range between the initial rate and the subsequent mark-out rate.