

NASDAQ CXC LIMITED

NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT

Nasdaq CXC Limited ("**Nasdaq CXC**") is publishing this Notice of Proposed Changes in accordance with the "Process for the Review and Approval of Rules and the Information Contained in Form 21-101F2 and the Exhibits Thereto." Market participants are invited to provide the Commission with comment on the proposed changes.

Comment on the proposed changes should be in writing and submitted by **July 31**, 2017 to

Market Regulation Branch
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20 Queen Street West
Toronto, ON M5H 3S8
Fax : (416) 595-8940
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and

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Comments 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 Commission staff's review and to outline the intended implementation date of the changes.

Any questions regarding the information below should be addressed to:

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Nasdaq CXC proposes to introduce the following change to the Nasdaq CXC trading system:

Trading of foreign debt securities

A. Description of the proposed change

Nasdaq CXC is proposing to provide Canadian Permitted Clients access to the Nasdaq Fixed Income trading system (**NFI**) operated by its U.S. affiliate Execution Access, LLC (**EA**) for purposes of trading non-Canadian fixed income securities.

Background

Nasdaq Inc., Nasdaq CXC's ultimate parent company, acquired the NFI platform (formerly, eSpeed) from BGC Partners in June 2013. NFI is a fully executable central limit order book for electronic trading in U.S. Treasuries (**USTs**). NFI is currently operated by EA. EA 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**). NFI is registered as an alternative trading system (**ATS**) with the SEC.

Nasdaq CXC has requested an exemption from Part 6.3 of National Instrument 21-101 – *Marketplace Operation* (**NI 21-101**) to be permitted to offer Permitted Clients access to the non-Canadian fixed income trading systems operated by its affiliate EA.

Upon grant of the requested exemption and regulatory approval of the proposed change, Nasdaq CXC will provide Canadian-based Permitted Clients access to the NFI platform operated by its U.S. affiliate, EA, for the trading of non-Canadian fixed income securities.

Operation of the fixed income trading system

For the purpose of accessing the NFI platform, a customer located in Canada will be a participant of CXC ATS. Nasdaq CXC will be the "client-facing" entity for Canadian Fixed Income Customers. Canadian Customers will enter into a supplemental agreement with Nasdaq CXC that provides for the routing of Canadian client orders to NFI. EA will continue to be responsible for the execution of trades in USTs on the NFI platform. An intercompany agreement will be entered into between Nasdaq CXC and EA in respect of the routing arrangement. Orders transmitted by a customer located in Canada for a fixed income security traded in the United States will be routed and executed in accordance with the terms of the intercompany agreement.

CXC ATS does not execute trades. CXC ATS receives orders from Canadian Fixed Income Customers and routes them to NFI ATS in accordance with the terms of the intercompany agreement.

We use the following defined terms herein:

Defined Term	Definition
Nasdaq CXC	Nasdaq CXC Limited
EA	Execution Access, LLC
CXC ATS	Canadian ATS operated by Nasdaq CXC

Defined Term	Definition
NFI ATS	Nasdaq Fixed Income, a U.S. ATS operated by EA
Canadian Fixed Income Customers or Canadian Customers or Permitted 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 CXC ATS for execution by NFI ATS
SEC	U.S. Securities and Exchange Commission
FINRA	Financial Industry Regulatory Authority
UST	U.S. Treasury securities
IIROC	Investment Industry Regulatory Association of Canada
API	Application Program Interface
WI trading	“When Issued” trading
OTR Swaps	Off-the-Run Treasury Swaps
Clearing Firm	Unaffiliated third-party provider of UST securities clearance services to EA
FICC	Fixed Income Clearing Corporation
LBE	Long-bond-equivalent
DAY	Time-in-force of Day
IOC	Immediate or Cancel
GTB	Good ‘til Bettered
MOS	Minimum order size
OAB	Only-At-Best
MIS	Minimum increment size
MPI	Minimum price increment
BBO	Best Bid or Offer

Additional information regarding CXC ATS and affiliates

Nasdaq CXC, a registered investment dealer and member of the Investment Industry Regulatory Organization of Canada (**IIROC**) operates the CXC ATS for the trading of securities listed on the Toronto Stock Exchange and TSX Venture Exchange. CXC ATS subscribers must be members in good standing of IIROC with the ability to clear trades on a continuous net settlement basis with the Canadian Depository for Securities.

CXC ATS operates two additional trading facilities: Nasdaq CX2 (**CX2**), which offers trading in the same listed securities as that of CXC and Nasdaq CXD (**CXD**), which is a dark trading book. CX2 and CXD are also available to registered investment dealers who are members in good standing of IIROC. CX2 operates as a separate marketplace using the same trading platform as CXC. CXD operates as a separate marketplace using the same trading platform as CX2.

The routing of orders by CXC ATS on behalf of Canadian Customers for non-Canadian fixed income securities to the NFI ATS will not affect the existing operations of the Nasdaq CXC, CX2 and CXD trading facilities.

Nasdaq, Inc., the ultimate parent company of EA and Nasdaq CXC, is a global holding company with 24 direct and 127 indirect affiliates around the world.

Canadian Fixed Income Customers and available interfaces

Canadian Fixed Income Customers consist of sophisticated institutional entities, namely banks, registered securities dealers, and investment funds.

The NFI graphical user interface provides Canadian Customers with a trading application that enables users to create customizable order placement, and real-time monitoring and management of orders, positions and profit & loss. The NFI application program interface (**API**) provides Canadian Customers with access to order entry and straight through processing. Canadian Customers using the NFI API can also access real-time market data and historical data. The NFI FIX protocol provides Canadian Customers with access to order entry and straight through processing. Canadian Customers may also connect by using a third-party vendor's order management system.

Real-time market data is available through the Nasdaq ITCH Protocol, the NFI API or the NFI Multicast Feed. Historical and end-of-day data is available via Secure File Transfer Protocol.

Securities Traded on the NFI ATS

NFI subscribers can trade U.S. Treasury securities: Floating Rate Notes and Treasury Bills, Notes and Bonds. Regular U.S. Treasury trades settle on the next business day following trade date (T+1).

In general, UST securities become available for "When Issued" (**WI**) trading immediately following the U.S. Treasury's announcement of the offering, but prior to the completion of the auction process. WI transactions forward settle on the issue date of the security, after which, trade settlements follow regular settlement (T+1).

Notes and Bonds can be traded outright or as a swap (i.e. Coupon Roll or Swap Box). WI can also be traded as roll against Benchmarks.

UST securities are traded across five systems (**trading rooms**) within the NFI platform:

1. Bills;
2. Shorts (2Y and 3Y);
3. Fives (5Y);
4. Intermediates (7Y and 10Y); and
5. Longs (30Y).

Off-the-Run Treasury (OTR) Swaps

OTR Swaps are traded on the basis of a spread between the current On-the-Run security and a specific Off-the-Run security. For the purpose of quoting and trading, the On-the-Run security is assigned a price at or near current market levels (known as the lock price). The value of the Off-the-Run security is expressed as a price relative to the lock price (the “Price Swap Box”).

Clearing

EA maintains a fully disclosed clearing agreement with an unaffiliated third-party provider (the **Clearing Firm**) for UST securities clearance services. The Clearing Firm is a member of the Fixed Income Clearing Corporation (**FICC**). FICC is registered with, and regulated by, the SEC. FICC provides real-time pair-off, clearing, risk management and netting for UST trades.

The Clearing Firm acts as principal and the counterparty to each trade, with the counterparty settlement risk remaining with EA throughout the settlement process.

Aggregate Credit Thresholds

EA establishes daily credit limits for each subscriber, as measured by the long-bond-equivalent (**LBE**) metric, which expresses the net 30-year UST notional equivalent. A duration conversion is made to express positions in other UST maturities in terms of the LBE.

Credit limits are established at two levels:

1. By Subscriber: When the subscriber’s credit level is reaching its limit, credit limiting action will impact all users of the firm regardless of a user’s activity. A credit limit is established for a subscriber within each UST trading room.
2. By User: Each User of a subscriber has their own established credit limit. When a subscriber’s credit limit is at an acceptable level but a user’s credit usage is reaching its limit, credit limiting action will impact the user only, while other users of the subscriber may continue to enter orders. A credit limit is established for a user within each UST trading room.

Each incoming order is checked in real-time against a dynamically adjusted LBE limit of the subscriber and individual user.

Orders

All orders entered into NFI are considered firm orders, unless determined to be clearly erroneous, and are 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.

EA maintains a full audit trail of every order submitted to NFI.

Order Types

NFI accepts Limit Orders only. A Limit order is an order that stipulates a maximum purchase price or minimum selling price. Limit orders may have a time-in-force of Day (**DAY**), Immediate

or Cancel (**IOC**), or Good 'til Bettered (**GTB**), Only-At-Best (**OAB**). A limit order will only execute at prices equal to or better than its specified price. A limit order can be matched in part or in its entirety. If not fully executed, the unexecuted remaining quantity is posted in the order book, unless the order's time-in-force value is IOC.

Time-in-Force

Time-in-Force means the period of time that an order is available for execution on NFI.

<i>Order Type</i>	<i>Description and Functionality</i>
Day	A limit order that is eligible for execution from order entry time to (i) the end of the trading session, (ii) cancelled by the User, or (iii) when a User disconnects from the platform. Subscribers will receive a cancel message for expired Day orders, except where the order is cancelled by the system upon disconnection.
Immediate or Cancel (IOC) / a/k/a Fill and Kill (FAK)	<ul style="list-style-type: none"> ▶ An order that is immediately executed, in full or part, or cancelled back to the User. ▶ Any remaining unexecuted quantity is automatically cancelled. ▶ Users will immediately receive an 'IOC Reject' when an IOC order doesn't receive an execution, in whole or in part. ▶ Execution and cancellation messages are sent immediately to the user. <p>IOC orders are applicable for trading On-the-Run securities only.</p>
Good 'til Bettered (GTB)	<p>An order that is eligible for execution from order entry time to (i) the end of the trading session, (ii) cancelled by the User, or (iii) when a user disconnects from the platform, provided the order's limit price is within the user's defined Top-of-Market Protection Range.</p> <p>The Top-of-Market Protection Range means the maximum number of price increments away from best bid (when placing a buy order) or best offer (when entering a sell order).</p> <p>Users receive a cancel message when a GTB order expires or the order price is outside the User's Top-of-Market Protection range.</p>
Only-At-Best (OAB)	<p>An order that is eligible for execution from order entry time to (i) the end of the trading session, (ii) cancelled by the User, or (iii) when a User disconnects from NFI, provided the order's limit price remains at the top-of-book (best) price level.</p> <p>Users receive a cancel message when an OAB order expires or the order's limit price is no longer at the best price level.</p>

Any order with a time-in-force other than IOC that remains on the book is considered a 'resting' order.

Minimum Order and Increment Size

The minimum order size (**MOS**) means the smallest allowable unit of trading for a specific UST instrument or optional parameter (such as with the Discrete order type – see below). The minimum increment size (**MIS**) means the smallest allowable unit of trading for any order modification or cancellation for a specific instrument. Order quantity is represented in millions (e.g., USD\$1,000,000 = 1). MOS and MIS vary based on the UST instrument, its maturity date, and any optional order parameters. MOS and MIS vary based on the UST instrument and its maturity date.

Minimum Price Increments

The minimum price increment (**MPI**) is the smallest allowable displayed price increment for a specific instrument. MPI varies based on the UST instrument and its maturity date.

Order Display

NFI allows non-IOC (resting) orders to be fully displayed, partially displayed, or non-displayed according to subscriber instructions. Orders residing on NFI receive a timestamp at the time the order is received by the NFI matching engine.

Fully Displayed Orders

Fully displayed orders are resting orders that have the full order quantity displayed in the order book. Fully displayed orders must have a quantity equal to or greater than the MOS.

Non-Displayed Orders and Partially Displayed Orders (Reserve and Discrete)

Resting orders that have a displayed and non-displayed portion.

Optional Order Parameters

Reserve (Max Display)

An order with a "Reserve" designation has a displayed and non-displayed portion. The displayed portion of a Reserve order must be equal to or greater than the MOS, and no greater than the total order quantity.

An incoming Reserve order may execute up to its total order quantity (i.e. displayed and non-displayed quantity) if sufficient marketable contra-side volume is available.

A non-marketable or partially executed Reserve order will post (rest) in the order book with a displayed and non-displayed quantity. When the displayed portion of a Reserve order is partially or fully executed, the displayed portion is replenished (re-clipped) from its Reserve quantity. Each time the displayed portion is replenished, the replenished quantity is prioritized behind other resting displayed orders at the same price level.

Maximum (Max) and Minimum (Min) Display

Max Display and Min Display allow a subscriber the ability to control the displayed portion of a Reserve order.

The Max Display value is the maximum quantity to be displayed when replenishing (re-clipping) the displayed portion of a Reserve order.

Min Display value is the minimum quantity to be displayed when re-clipping the displayed portion of a Reserve order.

Users may enter a Max Display and Min Display value to an order. The system will apply a random display quantity between the Min Display and the Max Display when re-clipping the displayed portion of the order.

Elect

Elect is an optional feature that allows subscribers to designate specific counter-party participant groups with which the discretionary portion of their Discrete, Mid-Block, and Elect Reserve orders may interact.

NFI also accepts two other order types (Discrete (Discretion) and Midpoint (Mid-Block)), which are proprietary. Both order types are available to all customers. Details regarding these proprietary order types are provided to customers on request.

Order Book Management

Orders sent to NFI will be placed in the order book based on price/time priority. The displayed quantity has priority over non-displayed reserve quantity, except for orders designated as Elect or Discrete.

The displayed order book includes all orders with the exception of those marked as Mid-Block and the non-displayed portion of an order designated as Discrete or Reserve.

The non-displayed order book includes orders marked Mid-Block and the non-displayed portions of an order designated as Discrete or Reserve.

When the displayed quantity of a Reserve order is executed, the replenished quantity is placed in the order book behind other resting displayed orders.

Discrete and Mid-Block orders receive priority due to their price inside the BBO, provided the MOS is met.

Order Modification

Open (active) orders may be amended by Users at any time. Order amendment (modification) messages are processed in the order in which they are received. Order modifications may affect an order's priority.

An order modification may not be processed if an execution occurred prior to the processing of an order modification.

Price Modification

A resting order's priority in the displayed and non-displayed order book is surrendered when modifying price.

Quantity Modification

Order book priority is preserved when reducing the displayed quantity of an order.

Order book priority of the original order quantity is preserved when increasing the displayed quantity of an order; however, the additional displayed quantity is prioritized behind other resting displayed orders at the price level.

Order book priority of the displayed portion of an order is surrendered when increasing the non-displayed quantity of a Reserve order. Order book priority of the displayed portion of an order is preserved when increasing the non-displayed portion of an Elect Reserve order.

B. The expected date of implementation

It is expected that the proposed change will be implemented shortly after satisfaction of 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 the proposed change

Nasdaq CXC has been working with Commission Staff to arrive at an outcome that is consistent with the approach followed in another similar situation. Proceeding in the manner described above is consistent with the existing regulatory framework within Canada. The proposed change will also provide Canadian participants with an additional venue for trading non-Canadian fixed income securities.

D. Expected impact of the proposed change on market structure, subscribers, investors and capital markets

We foresee no adverse impact on market structure, subscribers, investors or the capital markets because the proposed change is most consistent with the existing regulatory framework within Canada and relates to the trading of non-Canadian fixed income securities only.

E. Expected impact of the proposed change on Nasdaq CXC's compliance with Ontario securities law and the requirements for fair access and maintenance of a fair and orderly market

We foresee no adverse impact on Nasdaq CXC's compliance with market structure, Ontario securities laws or to requirements of fair access and the maintenance of a fair and orderly market.

F. Consultations undertaken in formulating the proposed change, including internal governance process followed

Nasdaq CXC consulted with certain customers before proceeding with the proposed change. The proposed change was approved by the management of Nasdaq CXC.

G. Whether the proposed change will require subscribers and vendors to modify their own systems

The proposed change will not require any work by subscribers or vendors to modify their own systems. 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.

H. Discussion of alternatives

Nasdaq CXC considered whether or not to implement the proposed change. Since the proposed change is most consistent with the existing regulatory framework in Canada concerning the trading of non-Canadian fixed income securities, Nasdaq CXC intends to implement the proposed change, subject to receipt of regulatory approval.

I. Whether the proposed change would introduce a fee model or feature that currently exists in other markets or jurisdictions

The proposed change is specific to the existing regulatory framework in Canada and is consistent with the regulatory treatment of other Canadian ATs who provide Canadian customers an access point to foreign fixed income trading platforms operated by affiliates.