

February 24, 2016

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

**Re: Regulation of NMS Stock Alternative Trading Systems
File No. S7-23-15; RIN: 3235-AL66**

Dear Mr. Fields:

MarketAxess Corporation (“MarketAxess”)¹ submits this letter in connection with the Securities and Exchange Commission’s (the “Commission”) proposal to amend the regulatory requirements that are applicable to alternative trading systems (“ATs”) that transact in National Market System (“NMS”) stocks (hereinafter referred to as (“NMS Stock ATs”)).² In the Proposing Release, the Commission has asked for comment on whether and to what extent the transparency proposals described in the Proposing Release (the “Transparency Proposals”) should apply to ATs that exclusively trade fixed income securities (hereafter, “Fixed Income ATs”).³ As discussed below, MarketAxess does not believe that it would be necessary or appropriate for the Commission to expand the scope of the Transparency Proposals to Fixed Income ATs.

I. Introduction and Background

¹ MarketAxess is the principal operating subsidiary of MarketAxess Holdings Inc., a public company listed on Nasdaq. MarketAxess operates the leading electronic platform for credit product trading by institutional investors in the U.S. The MarketAxess platform promotes transparency, price discovery, and liquidity in the corporate bond and other fixed income markets through its all-to-all Open Trading™ protocols and efficient multi-dealer pricing workflows. MarketAxess is registered as a broker-dealer with the U.S. Securities and Exchange Commission, is a member of the Financial Industry Regulatory Authority, and has two registered alternative trading systems, one for corporate and sovereign debt, and the other for single name credit default swaps.

² See Securities Exchange Act Release No. 34-76476 (December 28, 2015) (the “Proposing Release”).

³ We have used the term “Fixed Income ATs” to refer solely to ATs that trade fixed income securities other than U.S. government securities. The comments set forth herein are not intended to address the issues that the Commission has raised with respect to ATs that trade U.S. government securities. We also note that this letter does not attempt to respond to each of the questions that the Commission has raised regarding the application of the Transparency Proposals to Fixed Income ATs.

MarketAxess believes that it is essential to understand the evolving state of the electronic trading environment for credit products, particularly corporate bonds, when considering whether to require a significant increase in the transparency requirements for Fixed Income ATSs. Electronic trading in U.S. investment-grade corporate bonds reached 20% of total market volume in 2015, which is significantly higher than the 8% of total market volume that was traded electronically as recently as 2013.⁴ In other words, even at the high-water mark, approximately 80% of total market volumes were still transacted by the traditional means of institutional investors and broker-dealers trading by use of the telephone, instant-messenger, e-mail or other direct means of communication. Importantly, of the 20% of total market volume that was traded on an electronic trading platform in 2015, nearly all of the volume was transacted pursuant to request for quote (RFQ) protocols. As the Commission knows, a bond trading platform that utilizes an RFQ trading protocol is not an ATS.

MarketAxess and other platforms have launched ATS protocols numerous times over the last ten years in order to promote price discovery and the matching of multiple interests by non-discretionary means, including live order books, session-based trading and mid-market matching. Notwithstanding these earnest efforts, such protocols have repeatedly failed to gain significant traction with investors and broker-dealers as a result of the fragmentation in the fixed income market. Due to the illiquid nature of most corporate bonds, market participants (most with responsibility for satisfying best execution requirements) have determined that the point-in-time pricing delivered by electronic RFQ provides them with better pricing and lower transaction costs than ATS-type protocols. Accordingly, while cross-matching protocols have gained significant traction in the more liquid U.S. Treasury markets, they simply are not favored by institutional participants in the corporate bond market for rational reasons.

Given that only a very small portion of the overall secondary market for corporate bonds is currently transacted through Fixed Income ATSs, the imposition of enhanced transparency requirements and operational burdens at this time is likely to create a disincentive for platforms to continue to invest in and promote new ATS protocols. Likewise, from a cost-benefit standpoint, it must be understood that the increased transparency achieved from the Transparency Proposals would only shine a light on a sliver of the secondary market and provide little incremental clarity for fixed income investors.

II. Application of the Transparency Proposals to Fixed Income ATSs

As described in more detail in the Proposing Release, the Commission is concerned that the current level of transparency for ATSs, particularly those that execute trades in NMS stocks, may no longer fully meet the goals of furthering the public interest and protecting investors. As a result of these concerns, the Commission is generally proposing to amend Regulation ATS and Exchange Act Rule 3a1-1(a) to: (i) amend Regulation ATS to adopt Form ATS-N, which would require an NMS Stock ATS to provide more detailed information about its trading operations and the activities of the sponsor of the ATS and its affiliates, (ii) make filings on Form ATS-N public; and (iii) require an NMS Stock ATS to obtain prior Commission approval before it commences operations.

⁴ See Greenwich Associates report entitled “The Continuing Corporate Bond Evolution”, Q4 2015.

In the Proposing Release, the Commission has asked for comment on: (i) whether Fixed Income ATSs raise the same or similar operational transparency concerns that the Commission preliminarily believes to exist for NMS Stock ATSs; and (ii) whether the Commission should apply the Transparency Proposals to all or some subset of Fixed Income ATSs. As discussed further below, MarketAxess believes that extending the application of the Transparency Proposals to Fixed Income ATSs is not necessary or appropriate at this time.

As the Commission noted in the Proposing Release, although NMS Stock ATSs compete significantly with national securities exchanges, national securities exchanges are subject to numerous transparency requirements that do not currently apply to NMS Stock ATSs. Thus, the Transparency Proposals seek to level the playing field between competing markets. However, as the Commission stated in the Proposing Release, market participants that trade fixed income securities are typically not required to compare transparent trading venues against non-transparent trading venues, and a Fixed Income ATS primarily competes against other Fixed Income ATSs or trading venues that have limited or no operational transparency. Moreover, only a small percentage of secondary market corporate bond transactions are executed on a Fixed Income ATS (including those sponsored by MarketAxess). Thus, we do not believe that it is necessary to apply the Transparency Proposals to Fixed Income ATSs because the transparency disparity that these proposals seek to address are not present in the fixed income markets.

The Commission also stated that the Transparency Proposals would benefit investors by providing them with a better understanding of the manner in which NMS Stock ATSs operate. As the Commission noted, equity market trading centers are highly automated, are connected through routing networks, and execute orders at rapid speeds using a variety of esoteric order types. However, the operations of Fixed Income ATSs are not nearly as complex as those of NMS Stock ATSs. In this regard, and as the Commission noted, most Fixed Income ATSs (including the ATSs sponsored by MarketAxess) limit the order types that are available to subscribers. Further, unlike the equity markets, the fragmentation and uneven liquidity-profile of the corporate bond markets make it unsuitable for the use of complex order types and sophisticated routing strategies. As a result, the matching protocols used by Fixed Income ATSs are straightforward, and generally consist of limit order books or auction trading mechanisms that utilize strict price-time priority rules. Thus, given the straightforward nature of their operations, we do not believe it is necessary to require Fixed Income ATSs to describe their trading operations in more detail.

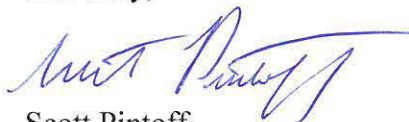
We also note that the Transparency Proposals are designed to address the Commission's concerns about the lack of disclosure surrounding the potential conflicts of interest that may arise if the broker-dealer that operates an ATS (or its affiliates) also trades on the ATS. In this regard, the Commission emphasized that although the operations of most ATSs and their broker-dealer operators have become more closely connected, market participants receive limited information about the potential conflicts of interest that arise from these activities. While the Commission recognized that the specific conflicts of interest that might arise on NMS Stock ATSs operated by multiservice broker dealers may not be identical to the potential conflicts of interest that might arise on Fixed Income ATSs, it also noted that the current operations of Fixed Income ATSs may still give rise to potential conflicts of interest.

Given the relatively illiquid nature of the fixed income market compared to the national equity markets, we believe that most operators of Fixed Income ATSS and their affiliates do not trade on their own platforms.⁵ Even if this were not the case, the ability of broker-dealers that sponsor Fixed Income ATSS to utilize the information they receive in such capacity is fairly limited due to the relatively low volume of transactions effected on such ATSS and the uneven liquidity profile of the corporate bond market. Thus, without attempting to minimize the Commissions' concerns, we believe that the conflict of interest issues that the Transparency Proposals are designed to address are not a significant factor in the corporate bond markets.⁶

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MarketAxess appreciates the opportunity to submit these comments on whether the Commission's proposal to amend the regulatory requirements that are applicable to NMS Stock ATSS should be extended to Fixed Income ATSS. If the Commission has any questions concerning the matters discussed in this letter, please contact me at [REDACTED].

Sincerely,



Scott Pintoff
General Counsel

⁵ MarketAxess does not currently act as matched principal on any Fixed Income ATS that it sponsors, and only acts as matched principal counterparty in connection with its non-ATS business to support the anonymous nature of its Open Trading™ protocols.

⁶ In the event the Commission disagrees with the comments set forth herein, we believe that the Commission should adopt rules that are designed to solicit information that is relevant to the operations of Fixed Income ATSS. For example, the Commission could consider mechanisms to make public certain information that is readily available to each Fixed Income ATS, such as actual trading volumes and number of active participants, that would assist investors in conducting best execution analysis.