THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MKTX - Q1 2014 MarketAxess Holdings Inc. Earnings Conference Call

EVENT DATE/TIME: APRIL 23, 2014 / 2:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Dave Cresci *MarketAxess Holdings, Inc. - IR Manager*

Rick McVey *MarketAxess Holdings, Inc. - Chairman and CEO*

Tony DeLise *MarketAxess Holdings, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Jillian Miller *BMO Capital Markets - Analyst*

Hugh Miller *Sidoti & Co. - Analyst*

Ashley Serrao *Credit Suisse - Analyst*

Mike Adams *Sandler O'Neill & Partners - Analyst*

Niamh Alexander *Keefe, Bruyette & Woods - Analyst*

Patrick O'Shaughnessy *Raymond James & Assocs. - Analyst*

Michael Wong *Morningstar - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. (Operator Instructions). As a reminder this conference call is being recorded April 23, 2014.

I would now like to turn the call over to Dave Cresci, Investor Relations Manager at MarketAxess. Please go ahead, sir.

Dave Cresci - *MarketAxess Holdings, Inc. - IR Manager*

Good morning and welcome to the MarketAxess first-quarter 2014 conference call. For the call, Rick McVey, Chairman and Chief Executive Officer, will review the highlights for the quarter and provide an update on trends in our businesses, and then Tony DeLise, Chief Financial Officer, will review the financial results.

Before I turn the call over to Rick, let me remind you that today's call may include forward-looking statements. These statements represent the Company's beliefs regarding future events that by their nature are uncertain. The Company's actual results and financial condition may differ materially from what is indicated in those forward-looking statements.

For a discussion of some of the risks and factors that could affect the Company's future results please see the description of risk factors in our annual report on Form 10-K for the year ended December 31, 2013. I would also direct you to read the forward-looking statement disclaimer in our quarterly earnings release which was issued earlier this morning and is now available on our website.

Now let me turn the call over to Rick.

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

Good morning and thank you for joining us to discuss our first-quarter 2014 results.

We announced earlier today a solid first quarter with revenues of $63 million, up 18% and pretax income of $28 million, up 12% year-over-year. Diluted EPS was $0.46 compared to $0.41 in the first quarter of 2013.

Our growth was driven by continued momentum in trading volumes with record average daily volumes for both US high-grade and other credit products and an increase in US high-grade estimated market share to 13.4% compared to 12.3% a year ago. Volumes from European clients were up 36% during the quarter.

We continued to invest actively in strategic initiatives that are designed to increase client participation on our trading network and develop new sources of liquidity for credit markets. Based on the first-quarter results, our Board has approved a $0.16 regular quarterly dividend.

Slide four provides an update on market conditions. We were able to grow market share across products in spite of the challenging conditions in current secondary markets. During the first quarter, investor demand for corporate bonds led to near record US high-grade new issuance. Strong demand is also reflected by the decline in credit spreads and yields during the quarter. Credit spreads are now back to pre-crisis lows. Credit spread volatility is also running at close to its lowest level of the past three years.

Investor demand for corporate bonds is currently focused on the new issue market. Secondary inventory of high-grade and high-yield corporate bonds among primary dealers currently represents approximately one day of secondary trading activity. Strong demand and limited secondary supply drives investor focus to new issues.

This challenging market dynamic in the short-term is also reflected in our hit rates. Investor orders to sell bonds on MarketAxess currently results in a trade 85% of the time while orders to buy bonds resulted in trades just over 50% of the time. Lower overall hit rates versus the year-ago period held back our market share gains. We believe the long-term outlook for the secondary market is much more promising.

High-grade corporate debt outstanding is up over 60% since 2008. When market conditions have shifted in the recent past as they did last spring, we have seen higher secondary turnover and higher electronic market share.

Slide five provides information on our progress in open trading. We continue to focus on developing new open trading solutions to help dealers and investors operate effectively in the new credit market characterized by limited balance sheet capacity. This quarter we completed an important technology loop allowing dealers to be full participants in market lists with the ability to both send and respond to inquiries. We have also delivered functionality that allows dealers and investors to trade with more than one counterparty per inquiry.

RFQ add-ons allowed system participants to access liquidity in smaller trade sizes to work a transaction up to a larger size. Indications of interest have also been consolidated into one page in order to more readily identify trade matching opportunities between dealers and investors.

Orders available in our market list open order book continue to grow and system participation in trading volume in the order book reached a new record in the first quarter. Our Open Trading strategy is focused on providing a wide menu of valuable technology solutions to dealer and investor clients to expand their range of potential counterparties to improve secondary market liquidity and turnover.

The wide range of trading solutions led to a record quarter in active investor firms trading on MarketAxess. Our volume growth this quarter was led by a handful of strategically important large investors that have increased their engagement with the trading system.

On the dealer side, eight of the top 10 new issue underwriters were also top 10 dealers on MarketAxess in Q1 and we had 90 dealers in total making markets on the system.

Slide six provides an update on Europe. We continue to make progress executing our European strategy to deliver a comprehensive offering for trade execution, data and post-trade services. We have improved the functionality on our platform and expanded our trading protocols to offer dealers and investors greater choice in how they trade. This led to a 36% increase in trading volume from European clients including an 80% increase in emerging market volume compared to the first quarter of last year.

On the post-trade side, we saw an 8% increase in regulatory transaction reporting activity and we are seeing growing demand for additional post-trade services including trade matching. Momentum continues in sales of our existing data products and we are excited about development of new value-added products in the coming quarters.

Our European client revenue now accounts for 20% of total Company revenue and we remain optimistic about the synergies between the trading, post-trade and date of businesses. Our technology platform migration for the post-trade services is on track and we continue to anticipate that Xtrakter will be accretive to earnings in the second half of this year.

Now I would like to hand the call over to Tony for additional detail on our volumes and financial results.

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Thank you, Rick. Please turn to slide seven for a summary of our trading volume across product categories.

Our overall global trading volumes were up 17% year-over-year to $187 billion during a period when combined high grade and high-yield trades volume was roughly flat. US high-grade volumes were $119 billion for the quarter, up 18% from one year ago on a combination of the 110 basis points increase and estimated market share and a modest increase in high-grade trades volume.

Year-over-year market share gains were tempered by the decline in the offer side hit rate.

Volumes in the other credit category were up 20% compared to the first quarter of 2013. Eurobonds, high yields and emerging market volumes were each up more than 17%. Investor order flow in the other credit category increased 32% year-over-year. Similar to high-grade trading, we experienced a challenging hit rate environment for high-yield bonds in the first quarter of 2014.

The CFTC made available for trade mandate was effective for CDS indices at the end of February. Our CDS Index volumes were up almost 200% sequentially to $19 billion and down 37% from the first quarter of 2013.

Slide eight displays our quarterly earnings performance. Revenues of $63.4 million were up 18% from a year ago principally due to a 10% increase in trading commissions and the inclusion of a full quarter of Xtrakter results in 2014. Total expenses were $35.7 million, up 23% from the first quarter of 2013. The expense increase also reflects the inclusion of a full quarter of Xtrakter expenses in 2014.

On a pro forma basis assuming the Xtrakter results were consolidated for the entire first quarter of 2013, the total year-over-year expense increase would have been closer to 9%. Our diluted EPS was $0.46 compared to $0.41 one year ago. The effective tax rate was 37% for the first quarter. The full-year 2014 effective tax rate is currently projected at the low end of the 2014 guidance range of 37% to 40%.

On slide nine, we have laid out our commission revenues, trading volumes and fees per million. The 10% year-over-year improvement in variable transaction fees was due to the 17% increase in trading volume offset by a 6% decline in overall fees per million.

US high-grade fees per million were $167 in the first quarter compared to $184 in the fourth quarter of 2013. The combination of almost a one-year decline in average years to maturity and a shift to larger trade sizes where we earn less under our tiered fee plan caused the decline. Post crisis, the average years to maturity of high-grade bonds traded on our platform has ranged from a high approaching 10 years to a low of approximately 7.5 years.

We dipped below eight years to maturity in the first quarter but we are still within the post crisis range.

Realizing that there are many factors impacting high-grade fee capture, in the near-term we don't foresee any significant change in absolute yield or the yield curve environment.

Fees per million in the other credit category were $301 in the first quarter, down from $321 in the fourth quarter of 2013. The sequential change in fee capture and other credit was largely attributable to a trading shift among product categories. A 40% sequential growth in comparatively lower margin Eurobonds exceeded the growth in emerging markets and high-yield trading volumes.

Distribution fees were $16.2 million during the first quarter and consistent with the fourth-quarter level. The year-over-year increase was principally due to several dealer migrations to the major US high-grade dealer plan in the second half of 2013. We currently are not tracking any dealer movements between our high-grade fee plans.

Slide 10 provides you with the expense detail. First-quarter 2014 expenses of $35.7 million were flat versus the fourth quarter of 2013. The $1.8 million sequential increase in compensation and benefits was attributable to the seasonal nature of certain employee taxes and benefits, higher incentive compensation and an increase in headcount.

The level of professional and consulting fees tends to vary quarter to quarter. The $1 million sequential decline is due to lower technology and non-technology consulting costs and lower legal fees. A $900,000 decline in occupancy costs accounted for the majority of the sequential reduction in all other expenses. The fourth-quarter occupancy costs reflected actions taken to consolidate office space in London including a sublease loss and duplicate rent.

Full-year expenses are projected to be within our $150 million to $157 million guidance range but likely tracking at the lower end of that range. We haven't deviated from our year-end 2014 headcount target but the timing of new hire on-boarding has extended out. We also recently made a decision to consolidate data centers which will result in savings in technology and communication costs and equipment spend versus our original 2014 budget.

On slide 11, we provide balance sheet information. Cash and securities available for sale as of March 31 were $194 million compared to $200 million at year-end 2013. During the first quarter, we paid out our year-end employee cash bonuses of roughly $22 million, quarterly cash dividends of $6 million, and capital expenditures of $4 million.

We also initiated repurchases under our $35 million share buyback program in March. During the quarter, we repurchased 54,000 shares at a total cost of approximately $3.4 million. There was no change in our capital structure during the quarter. We have no bank debt outstanding and didn't borrow against our revolving credit facility.

Now let me turn the call back to Rick for some closing comments.

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

Thanks, Tony. The foundation of the MarketAxess business continued to get stronger in the first quarter in spite of the current market environment headwinds. In addition to the record quarter and average daily volumes traded on the system, we see optimistic signs that we are developing valuable tools for the credit market of the future. Regulatory changes continue to drive the shift in credit market structure.

Our growth in Europe during the quarter builds our confidence that we can grow our opportunity set and improve returns for our shareholders in the region.

Now I would be happy to open the line for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jillian Miller, BMO Capital Markets.

Jillian Miller - *BMO Capital Markets - Analyst*

Thanks, guys. If I annualize the current expense run rate -- I'm coming in even well below the low end of your guidance range and it you didn't change guidance but maybe if you could just walk us through how we get from here to that $150 million for the year. I don't know if it is all related to the hiring that you mentioned later in the year?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Right, Jillian. So we did not put out any freshened up guidance and you are right, in the prepared remarks, we said we are trending toward the lower end of that guidance range and you are also right that we would have to ramp up expenses from the first quarter level to get to that $150 million or so.

The two or three biggest expense changes would be around salaries which is predicated on the hiring plan. And as I mentioned we haven't deviated from the plan we set out several months ago which would have us hiring from this point forward, it could be an additional 10% increase in headcount. We haven't deviated from that but realize there is some variability in there.

The other big variable quite frankly is around incentive compensation and that is tied to operating performance so there is some variability there.

The third piece of it which we do expect to ramp up is around depreciation and amortization and at year end, we had given some specific guidance on that where we were trending. We thought the range was between $18 million and $20 million. First quarter we were at $4 million and we think it is going to ramp up from that level and that one feel more certain around the depreciation and amortization ramp up and probably more variability in the salaries line and the incentive compensation line.

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

Remember too, Jillian, that the first-quarter only has approximately one month of Xtrakter expenses from the prior year period. So we obviously are running at a different run rate starting the year on Xtrakter expenses too.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. And then on the all-to-all trading you guys put some impressive stats in there with respect to the use of market lists. And I was just hoping you might be able to give us an idea for what the actual open trading volume is. Like is it representing 1% of high-grade volume now for you guys, is it 3%, is that 5%? It is hard for me to gauge from the use of market lists what that's actually translating to in volume?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

We have another sequential growth in open trading volume. We also, as I mentioned before, are pleased with what we are seeing in the growing participation in terms of clients and dealers active in our open trading protocols. There is not a significant change in the percentage of volume coming from open trading so we are still running kind of between that 1% and 2% of volume level.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, thanks. That is helpful. And then just one other thing from me. On the high-grade C-rate, you mentioned that it had compressed for two reasons, the duration, which I am assuming is just related to a flatter yield curve. But then also the larger trade sizes and I guess this kind of goes also to the increase in the percentage of block trades that we have seen.

I'm not sure what is driving that, I mean maybe it is just a fluke and it should shift back to the more normal rate I guess or is something going on that I am kind of missing there?

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

I think there are a couple of things going on. I mentioned in my prepared remarks that we have seen really good progress during the quarter with some of our large focused accounts that we felt could have been using the system more actively and obviously those are the accounts that drive a significant percentage of the block trades in the secondary market. So I think that is one piece of it.

The second thing is we do often times see upticks in the percentage of block trades taking place in periods when the new issue calendar is very active and during the first quarter, you can see that trend in both our data as well as the trace data.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. Thanks, guys.

Operator

Hugh Miller, Sidoti.

Hugh Miller - *Sidoti & Co. - Analyst*

Good morning. So I guess in following up on the last question about some of the variable fee pricing, can you give us a little bit of color on as we take a look at the delta difference for US high-grade, how much of it is coming from duration versus trade size?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Sure, Hugh. Listen, first off, there is lots of items that impact that the fee capture and it is not only duration, which is around years to maturity and yield but trade size, even the dealer mix between the dealers on the all-variable plan and on the distribution fee plan. So there are lots of factors in there.

But for the period from the fourth quarter to the first quarter, that $14, that delta there, $17 delta was about evenly split between duration and that was mainly around the years to maturity and then the shift to the larger trade sizes.

Hugh Miller - *Sidoti & Co. - Analyst*

Okay. I guess as we look at block trading, it did uptick from what I'm seeing here about 43% of trace in the first quarter from 41% and change in the fourth quarter of last year. But is that what is really driving that on your platform with the uptick in size or is there something else that is going on with just a mix of client business or just people -- anything in particular that you are seeing that could be driving the size change?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

I would just reiterate the point I made earlier, a lot of the volume growth in the first quarter was driven by five of our Tier 1 focused accounts that are getting a lot more active on the system and on average their trade size is larger than the overall investor group trading on MarketAxess.

Hugh Miller - *Sidoti & Co. - Analyst*

Okay, that is helpful. Then as we think about kind of the competitive environment within CDS Index trading now that it has been live for a couple of months now and how competitive that environment has been, are you starting to change your strategy at all or your thoughts about ongoing investment for that product and how you are going to position the Company?

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

No, not really. I think that it has been a challenging start to the SEF mandate for all of us, the trading volumes in the industry going through SEFs that are smaller than everyone anticipated and the current fee capture is significantly lower. So I don't think you would find anyone that would say that they are having a great time with the early days of SEF trading.

Having said that, it is far too early to know how this will shape up over the medium to long term beginning with exactly where the CFTC will go with their rules because we have a new chairman and two new commissioners coming on board later in the second quarter so we have been in this transition period with the regulator which means that many SEFs are operating with different versions of the SEF rules right now and we need to see how that shakes out.

I think when you look at it, we are estimating that only 20% or 30% of the total index volume is being reported through SEFs right now so there is more to come in terms of the SEF space in terms of total market volume, in terms of how various competitor shake out and exactly what the CFTC does in terms of enforcing the rules with the new commission in place.

So as a result of all that uncertainty in the investments that we have made that we continue to feel good about, we continue to invest and focus on the CDS as one of our product areas.

Hugh Miller - *Sidoti & Co. - Analyst*

Great, that is helpful. And then as we think about your commentary around share repurchase in the quarter, kind of implying average pricing is somewhere in the low $60 area, are you guys more inclined now to be more active with share repurchase given kind of some of the recent pressure on the stock or your thoughts around that?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Hugh, on the share repurchases when we had talked about this at year end, we put in place a $35 million repurchase plan and we know what the purpose was was to offset the dilution from share grants and we really viewed the program we have in front of us more as a maintenance program. We have set up a 10(b)51 plan. We are in the market every day, we are buying against that plan.

We certainly have the capacity to act if the opportunity presents itself. We've got a healthy cash position, strong free cash flow generation. We've got lots of borrowing capacity if the opportunity presents itself. So the Board will be thoughtful around it and they will act accordingly but right now we are acting on the program in front of us which again is more of a maintenance program.

Hugh Miller - *Sidoti & Co. - Analyst*

Okay, yes, certainly understood. Can you provide any color on kind of the rationale for some of the hiring delays, is it just a function of finding the right people or changes in kind of the operating conditions that are causing you to hold off on making the hire or any insight there would be helpful.

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

It is more the former. As is always the case with hiring plans, you've got an aggressive outlook and you would like to get those positions filled as soon as possible. But in some of the markets that we are in, it is taking a little bit longer to get the positions filled so there are some business dependent positions but most of any sort of delays here in hiring is just finding the right people and getting them situated in the position.

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

And as Tony mentioned earlier, Hugh, we are finding some additional expense synergies with Xtrakter and that is an important part of the guidance that Tony provided earlier on the run rate for expenses as well.

Hugh Miller - *Sidoti & Co. - Analyst*

Sure. Understood. Thank you. And then the last question I had was just with regards to kind of market share for April. As we take a look at trace volume, it does appear that because it is likely the holiday timing that trace volume has been pressured year-over-year in April. But was wondering if you could provide us with some commentary around what you are seeing for share through the month as we see it now?

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

Sure. Happy to do so. I think this month we have six full trading days remaining in the month following the holiday week last week but what we see so far, Hugh, is very similar in April to the first quarter in all respects. Trace volumes, market share, product mix, etc., there are not any significant changes in the first three weeks of the second quarter versus the first.

Hugh Miller - *Sidoti & Co. - Analyst*

Thank you very much.

Operator

Ashley Serrao, Credit Suisse.

Ashley Serrao - *Credit Suisse - Analyst*

Good morning, guys. I just wanted to clarify the high-grade pricing dynamics this quarter. So on the fixed side, is the message here that this quarter is idiosyncratic and trends should pick up from here? Like asked another way, has the shift to large grade sizes from strategic clients and just a general shortening of duration continued into Q2?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Ashley, it is Tony. So Rick just mentioned about the conditions in April being comparable to the first quarter. That is across trade size and product mix and dealer mix on high-grade so you can infer from that comparability to the first quarter that so far in April -- and granted we are less than one month into the quarter right now -- we are not seeing much different in terms of fee capture.

Ashley Serrao - *Credit Suisse - Analyst*

Okay. Thanks for the color there. And then on the noncommissioned side, you had decent growth this quarter so I just wanted to get some more color there, is this mainly due to more clients, launch of new products and could you actually parse out the contribution of Xtrakter in terms of revenues and expenses for us?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

So on the Xtrakter side, the revenue run rate has picked up on Xtrakter so when we turn the calendar into 2014, the revenue run rate is up about 10% versus 2013. So the revenue run rate has picked up and for the first quarter, most of the delta -- and if you look at the earnings release there is a little more granularity in there -- most of the delta in the information and post trade services, it all came from Xtrakter. And if you do it on a comparable basis for the first quarter of last year, revenues were up about $4.4 million, all of that was related to Xtrakter.

Ashley Serrao - *Credit Suisse - Analyst*

Okay, great. Thanks for taking my questions.

Operator

Mike Adams, Sandler O'Neill.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Good morning, gentlemen. So a question on the fee cash or focusing more on the other product category, I think Tony, in your prepared remarks you mentioned like a 40% increase in the Eurobond volume. Now do you think that is connected to like gaining traction with Xtrakter so is that mix toward Eurobond [volume], do you think that could increase as Xtrakter really takes hold here?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

The first thing I will talk about what influences that other credit category. Just from a fee capture standpoint and other credit, it is dependent on the mix between EM, high-yield and Eurobonds and then even if you get more granular within emerging markets, it depends on whether it is corporate versus sovereign. In high-yield, it depends on whether a bond trades on spreads or price so there are lots of influencing items in there.

In this case when you look at it sequentially, it really was because Eurobonds did outperform. We think some of that is around what we are doing around data. Some of it is around what we are doing around testing some new trading protocols as well. I don't think we have seen the full effect of Xtrakter in embedding the data into our trading platform. I think a lot of that, as Rick had mentioned, a lot of that is underway right now and we probably haven't seen a big benefit of that to date.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Got it. And what was the percentage of high-yield EM volume of the other category?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

It was almost identical to the first quarter of last year. It was right around 82% and that is why the fee capture -- you look at the fee capture year-over-year in that other credit category did not vary widely. If you look at the mix, it was about the same.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Got it. Understood. And then maybe sticking with Xtrakter in Europe, I know one key date past sometime in February in terms of some of the trade reporting requirements in Europe. First, was that a revenue event for you? I know you are connected to CME's trade reporting facility. I am just curious if there is any discussions to maybe connect to ICE or DTCC or any other of the facilities that are available?

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

I think you are referring specifically to the swap reporting requirement and we are providing that service but it is a tiny part of what we do overall with regulatory transaction reporting and tracks so that in itself is not material.

The MiFID II bond transparency requirements we believe are still on track to take hold around the end of next year and we do see the market preparing for those changes and part of our work on data is working with the market participants in Europe to begin building some new data products in anticipation of the MiFID II required dates in a year and a half or two years.

So we think they are discrete data revenue opportunities that will emerge over the second half of this year and we also think we will see improvements in the value that investors and dealers see in our trading system because of the integration of data and trading on the MarketAxess Europe system.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Understood. Thanks, Rick. And then one last one from me. Since the last earnings call that you hosted, we have seen a few small M&A deals and the acquirers were not traditional competitors of yours. There were a couple of exchange operators and more of an equity focused block trading platform.

So maybe these smaller platforms weren't a major competitive threat in the past but as part of a bigger organization with greater financial resources and maybe it adds credibility. Do you expect any sort of change in the competitive dynamics and in your ability to maintain your dominant market share?

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

We are not at all surprised, as we've said in the past, I think the widely shared view is that electronic trading in credit will be much bigger over the next three to five years than it is today so it is not at all surprising that many participants are looking for entry points into credit.

The key theme as you point out is that these deals were really small. These were relatively early stage companies and we are a small company ourselves. But when we compare the breadth of our network, the investments that we are making in the system, the employee base, it is very, very different than the companies that were involved in the M&A space.

As always, Mike, the key for us is not to stand still. I think in spite of the lead that we have in US electronic credit trading we are still investing more by far than anyone else in new technology solutions to address the regulatory changes in the market. So our view as long as we keep our investment budget healthy and we are investing in the right solutions for our clients, we have every reason to believe that we can maintain our leadership position.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Got it. Thanks, Rick. Thanks, Tony.

Operator

Niamh Alexander, KBW.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

If I could just focus on a few industry questions, the company specific have been asked and answered. Rick, do you think we are going to get towards maybe some streaming prices in some of the more liquid bonds -- like we have had such huge volume of issuance in the last few years and some very, very big deals from some single companies. Are you starting to see kind of much more frequent trading in some of the bigger -- not more frequency trading -- but much more big -- much more frequent pricing and demand maybe getting towardS [CLOB] type activity in some of the products?

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

Gradually. Obviously streaming quotes are very common in the CDS Index space where the markets are very liquid and trade on spread and very stable in this kind of an environment. We see dealers developing streaming capabilities in bonds but using them primarily as indications for their clients now. Really what investors continue to find is that they do get better pricing through competitive RFQ protocols currently than they do from streaming quotes.

So the fragmentation in the market, the lack of continuous trading continues to be an obstacle for true streaming technology to work in the bond market in a fully live and executable way.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay, fair enough. So further out. If I could just go back to the company specific on the SEF because you have been investing in this -- I would say one of the more (inaudible) leaders in kind of how to structure these, working with the regulators for several years now and the SEFs have rolled out for indices, but we still haven't gotten the rules for the single name products from the SEC. And given how it is shaking out in the index, it seems like Bloomberg especially is running was some very, very low pricing. Is there a point where the benefits just don't outweigh the costs or it looks like the benefits don't outweigh the costs or do you think it is something that you cannot (technical difficulty)?

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

I think I made the point earlier that it is far too early to know. The cost for all SEFs are high which is why I don't think the current dynamic can support 21 SEFs. So I do think you are going to see far fewer SEFs in the industry over the next year but we have a lot to learn about volume going through SEFs in the aggregate, trading protocols that will be permissible by the commission longer-term, client and dealer demand for different protocols. So yes in the very short term, Niamh, our costs are clearly greater than our revenues and I would guess that that is the case for all 21 SEFs including the leader that you mentioned. So that is not likely to persist but it is way too early we think to make any final determinations of where we think we will be in the CDS SEF space.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay, fair enough. Thanks, Rick. Just lastly on Xtrakter, I guess it is Company specific, but the market data tape, you already said we expect Xtrakter to be accretive in the second half of this year and it looks like you are kind of coming in better than expected on the cost. But can you give me a little bit more specific information. You were working with some of the big dealers on kind of rolling out a more limited data tape. The rules may not require people to have a tape or whatnot until the end of next year but once it becomes available, I think it is hard not to have it. So this is something that you think you could actually start rolling out and have an effect in the second half of this year?

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

We will definitely have new data products out during the course of this year and the starting point in Europe is low because there hasn't been a lot of transparency in the European market and there is a subset of the transactional data that is not terribly controversial around more liquid bonds that trade very frequently where dealers and investors would agree that it is likely that that data is positive for the market and doesn't cause any great anxiety in terms of going deeper into less liquid bonds.

So we are working on those solutions and we are working with our dealer/investor clients on rules around trade transparency and we are excited about what we can do to lead that charge.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay, fair enough. Thanks so much.

Operator

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James & Assocs. - Analyst*

Good morning, guys. So my first question is just kind of delve a little bit deeper on the offer wanted hit rates issue. If we look at slide four, I think it is the chart on the lower left where you look at dealer corporate bond balance sheets. It looks like those balance sheets have been roughly flat for the last few quarters and yet over that period, we have seen that deterioration in your offer wanted hit rates. So is there something else going on with dealers besides balance sheet constraints that is pressuring those hit rates?

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

I would point less to the dealer side and more to investor demand. I think when you look at the combination of the new issue activity and the fact that those order books are consistently oversubscribed and the significant compression in credit spreads taking place, really what is happening is that investor demand is far greater than the existing level of supply even in spite of the very, very high levels of new issuance.

Patrick O'Shaughnessy - *Raymond James & Assocs. - Analyst*

Okay, that is fair. Appreciate it. I was looking at industrywide volumes, can you just update us what is your view on trading velocity, what sort of dynamics do you see that are out there that might increase corporate bond trading velocity over the next three years?

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

It is a variety of factors there but we have to believe that a market that is now 60% larger in debt outstanding is going to lead to greater secondary activity when the market conditions are more favorable. But the same slide that you are referring to when credit spreads have returned to all-time historical lows and volatility is generally low, it does not lead to a lot of secondary trading turnover. And I think that the conditions that we saw last spring where credit spreads started to widen and volatility was greater so there were more trading opportunities in the market, were a precursor to what we will see at some point in the future where when we get higher spreads and higher spread volatility, turnover of what is now a much larger base of corporate debt, we believe will be higher.

And I think that is also why it is critical that the industry continues to develop new sources of liquidity because the model that we think is likely to work in that environment in the future is not the same one that has worked in the past given the balance sheet constraints that the large dealers are now faced with.

Patrick O'Shaughnessy - *Raymond James & Assocs. - Analyst*

Okay, great. That is all I have. Thank you.

Operator

Michael Wong, Morningstar Equity Research.

Michael Wong - *Morningstar - Analyst*

Good morning. So primary dealer holdings picked up over the last year but are still down significantly from their peak. So are the large dealers as active on the platform as they used to be despite the lower inventory or balance sheet compared to (multiple speakers) prices?

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

Yes, the short answer is, yes. If you look at the high-grade and high-yield inventory, it is roughly flat so that is not really where the growth in primary dealer holdings is coming from. And actually the split between major dealers and dealers that are on the all variable plan has been fairly steady over the last few quarters at a little over 70% of the trades on dealers with the major dealer fee plan.

But within the story of dealers within our major dealer plan, we see very good signs of some of the largest underwriters and largest secondary trading firms are increasing their market share on MarketAxess. So we believe that is also a very healthy trend and a very healthy sign for the future.

Michael Wong - *Morningstar - Analyst*

And I was just wondering if you could quantify the current drag on earnings from operating just currently unprofitable SEFs?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Michael, we did provide some color in the 10-K that was filed in early March around the financial resource requirement for the SEF itself and the way the CFTC rules work, you have to maintain on a forward-looking basis, you have to maintain 12 months of operating expenses in terms of your financial resources.

So if you few look in the 10-K, you will see some disclosure which says that our financial resource requirement is approximately $6 million and what that tells you is that is about the operating run rate and from a revenue standpoint, while we did start charging our participants in March, it is just not a significant amount in terms of the revenue numbers.

So think about that $6 million number as a nut, you tax effect that and you can figure out it is more than a few pennies per share.

Michael Wong - *Morningstar - Analyst*

Okay, thank you.

THOMSON REUTERS

Operator

Mike Adams, Sandler O'Neill.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Actually my follow-up was answered. I couldn't figure out how to remove myself from the queue. Thanks.

Operator

(Operator Instructions). Jillian Miller, BMO Capital Markets.

Jillian Miller - *BMO Capital Markets - Analyst*

I know that the CDS revenue isn't material for now but I am just curious where it is showing up in the income statement if it does become hopefully more material over time?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Jillian, it is a very small amount for the first quarter and if it does become a material amount, we will have to sort of debate internally where we are going to set it up. But we may end up breaking it out separately into a separate category only because the volumes and the fee capture would probably distort any of the existing category. So if it does become something material, you will probably see it separately.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, thanks.

Operator

At this time I am not showing any further questions. I would now like to turn the call back over to Rick McVey.

Rick McVey - *MarketAxess Holdings, Inc. - Chairman and CEO*

Thank you for joining us this morning and we look forward to catching up with you next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.