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MKTX - Q3 2013 MarketAxess Holdings Inc. Earnings Conference Call

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## CORPORATE PARTICIPANTS

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**Rick McVey** *lMarketAxess Holdings, Inc. - Chairman, CEO*

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

## CONFERENCE CALL PARTICIPANTS

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

**Patrick O'Shaughnessy** *Raymond James - Analyst*

**Jillian Miller** *BMO Capital Markets - Analyst*

**Niamh Alexander** *KBW - Analyst*

**Hugh Miller** *Sidoti - Analyst*

**Michael Wong** *Morningstar - Analyst*

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded October 23, 2013.

Now I would like to turn the call over to Mr. David Cresci, Investor Relations Manager at MarketAxess. Please go ahead, sir. Thank you.

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

Good morning and welcome to the MarketAxess third-quarter 2013 conference call. For the call, Rick McVey, Chairman and Chief Executive Officer, will review the highlights for the quarter and will 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 make include forward-looking statements. These statements represent the Company's belief 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, 2012.

I would also direct you to read the forward-looking disclaimers 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.

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Good morning and thank you for joining us to discuss our third-quarter 2013 results. This morning, we reported our third-quarter financial results with revenues of $61 million, up 32% year-over-year, and pretax income up 23% to $26 million.

Diluted earnings per share from continuing operations were $0.48 for the quarter, up from $0.37 in the third quarter of 2012. Expenses were at $35 million, up 40% from the previous year.

Our revenue growth was primarily driven by an increase in investor order flow, resulting in record market share for both high-grade and high-yield corporate bonds. We are pleased with the growing momentum in our Open Trading initiatives.

During the quarter, we were granted temporary registration by the CFTC to operate a Swap Execution Facility. SEF trading commenced on October 2.

We also finalized the sale of Greenline Financial Technologies in early October, an entity that we no longer view as core to our strategy. We are delighted to have made two important Board appointments, with Leslie Daniels Webster and Jane Chwick bringing extensive risk management and technology expertise to our independent board. The Board has approved a $0.13 regular quarterly dividend.

Slide four provides an update on market conditions. During the quarter, taxable bond funds experienced net outflows, 10-year treasury yields and volatility ticked up compared to the prior quarter, and primary dealer holdings of corporate bonds remained light relative to historical levels. In spite of these headwinds, high-grade TRACE volumes were up 12% in Q3 versus the year-ago levels.

New issue volumes were healthy during the quarter, led by the record $49 billion Verizon deal. The significant 45% increase in corporate debt outstanding over the last five years, combined with the regulatory pressure on dealer balance sheets, creates the need for new electronic solutions for secondary credit markets.

Slide five highlights our continued strong growth rates. MarketAxess continues to deliver superior growth rates in revenues and earnings. Higher transaction revenues due to market share and volume increases are the primary driver of overall revenue growth.

Growth over the last two quarters has been above long-term averages. We believe this is driven by behavioral shift among investors causing an acceleration of electronic trading adoption rates in credit markets. We continue to expand our electronic liquidity solutions for dealers and investors, increasing the value of the platform for our customers.

In Europe, we are investing in product development and integration so that we can deliver on our promise to offer a unique solution for the region that includes real-time data, comprehensive trading protocols and post-trade services. We are optimistic that our investment in Europe will deliver improved revenue and earnings growth in the coming years.

Slide six provides information on market share trends in our core products. Our record high-grade and high-yield market share for the quarter was largely driven by a 39% year-over-year increase in overall investor order flow. As the last two quarters demonstrate, order flow continues to build even during periods of rising interest rates, fund outflows and healthy new issuance.

Open Trading solutions continue to be a focal point of our technology investments. During the third quarter, we saw an increase in open orders on the system and completed Open Trading transactions were up 79% from the second quarter.

Technology integration with BlackRock Aladdin is delivering enhanced efficiency and trading opportunity through the Aladdin network. Sequential growth in Open Trading volumes from BlackRock and other Aladdin clients was significantly above the trading system average.

This quarter, we will also add dealer orders to Market Lists, providing a new solution for dealers to access systemwide liquidity.

We have held over 5000 individual dealer and investor meetings so far this year, with a special emphasis on Open Trading. Based on that client feedback, we continue to believe that we are on the right track in delivering a full suite of credit trading protocols among our vast network of dealer and investor participants. Our investments are ongoing in order to add and enhance trading protocols to improve overall liquidity and turnover in credit products.

Slide seven provides an update on the regulatory timeline for SEF trading and on our CDS developments. As I mentioned earlier, we received temporary SEF registration from the CFTC in September. We are working closely with all system participants to prepare for the November 1 documentation deadline and the implementation of required swap transactions in the first quarter.

We announced earlier this quarter that we were the first SEF to complete pretrade FCM credit checking through Traiana's credit-checking hub. The CFTC has confirmed that they will require pretrade credit certainty for all FCMs.

During the first nine months of the year, our CDS volumes were up 155% compared to the previous year, although like many SEFs, we have seen a significant decline in CDS index volumes since October 2. We believe the temporary decline in SEF index volumes is due to the challenge that dealers and investors are having in complying with the new rules, causing many market participants to transact by phone. We currently expect mandatory trading on SEFs for CDS indices to come into effect in Q1 of next year, at which time we will review our revenue model.

It is interesting to note that our single-name CDS volumes have continued to grow, while newly-regulated CDS index volumes have temporarily declined.

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

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

Thank you, Rick. Please turn to slide eight for a summary of our trading volume across product categories. Our overall global trading volumes were up 27% year-over-year to $174 billion. US high-Grade volumes were $114 billion for the quarter, up 32% year-over-year. Approximately 2/3 of the high-grade volume gain was attributable to the 240 basis point increase in estimated market share and one third was attributable to the 12% year-over-year increase in TRACE volume.

Volumes in the Other Credit category were up 31% compared to the third quarter of 2012. All of this growth came from high-yield and emerging market volumes, where year-over-year investor order flow increased over 50%.

Slide nine displays our quarterly earnings performance. As stated in our earnings release, on October 8, we sold our Greenline business to CameronTec. Greenline's operating results have been classified as discontinued operations for all periods presented and are not included in the period-to-period comparisons of continuing operations. We have posted a file to the Investor Relations section of our website which displays the recast quarterly results for 2011, 2012 and 2013.

Revenues of $61.1 million were up 32% from a year ago, driven principally by a 22% increase in trading commissions and the inclusion of Xtrakter's postacquisition results. Total expenses were $34.7 million, up almost 40% from the third quarter of 2012. Excluding the Xtrakter operating expenses, total expenses were up 15% year-over-year and reflect the ongoing investments in people and technology to support Open Trading, CDS and other initiatives.

Our effective tax rate for the third quarter was approximately 31% and reflects a tax benefit of $2 million related to the domestic production activities deduction, approximately half of which related to 2012. We are updating our guidance and now expect our full-year 2013 effective tax rate will be between 36% and 37%. Excluding the impact of certain favorable prior-year deductions and credits, our 2013 projected effective tax rate would be closer to 38%.

On slide 10, we have laid out our commission revenue, trading volumes and fees per million. The 30% improvement in variable transaction fees was due principally to a 27% increase in overall trading volume. US high-grade fees per million were $192 in the third quarter, down slightly from the second quarter and down 6% year-over-year.

Among other items, our high-grade fee capture is sensitive to yields and years to maturity of bonds traded. The year-over-year decline is largely attributable to higher yields.

Fees per million in the Other Credit category were $317 in the third quarter, up from $294 a year ago and from $309 in the second quarter. The sequential and year-over-year improvement is due to volume mix favoring high-yield volume. Emerging market and high-yield volume accounted for 86% of the Other Credit category volume in the quarter.

Distribution fees were $15.6 million during the third quarter. One dealer migrated from the all- variable high-grade plan to the major dealer plan in the third quarter, and a second dealer followed the same path on October 1. We currently expect that fourth-quarter 2013 distribution fees will be approximately $0.5 million above the third-quarter level.

Slide 11 provides you with the expense detail. Third-quarter 2013 expenses were $34.7 million, up 3% sequentially from the as-adjusted figures reported for the second quarter. The sequential increase was driven by personnel increases in support of our Open Trading, CDS and European initiatives and higher amortization expense resulting from new product software development costs.

Our total headcount from continuing operations stood at 295 as of September 30, up from 204 at year-end 2012.

While it is not evident from our reported figures, the operating margins in our core business continue to expand, allowing us to fund new initiatives and future sources of revenue.

We are updating our full-year 2013 expense guidance to reflect the disposition of Greenline and associated discontinued operations presentation. We now expect that full-year expenses from continuing operations will be in the range of $130 million to $133 million.

On slide 12, we provide balance sheet information. Cash and securities available for sale as of September 30 were $177 million compared to $180 million at year-end 2012 and $150 million at June 30.

Free cash flow over the trailing 12 months hit a record $79 million. During 2013, we expended approximately $38 million to acquire Xtrakter and have paid cash dividends totaling $15 million. The dividend payout as a percentage of trailing 12-month free cash flow and earnings per share is below 30%. 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.

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Thanks, Tony. We are pleased with the acceleration of growth rates in our business reflected in the results we announced this morning. Increases in overall market volumes and higher market share drove our strong performance. We continue to be optimistic about the future demand for electronic trading in fixed income in light of the ongoing market structure changes.

In addition to the strength in our core business, we see positive developments this quarter in our major investment areas for Open Trading, Europe and CDS. We feel that our overall market opportunity continues to get larger.

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

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). Mike Adams, Sandler O'Neill.

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

Good morning, gentlemen. First question, on the Other Credit revenue category. So you've mentioned in the past that one of the key drivers of growth -- there has been cross-selling to the existing high-grade customers, as more guys are trading all three products. Can you give us an idea of the penetration there, like what percentage of customers are trading all three products at this point and where can that go?

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

Sure, Mike, it's Tony. We've given some statistics in the past or some comments in the past about the cross-selling and cross-selling opportunity. Right now, we have around 60% of our clients that trade high-grade emerging markets and high-yield, about 60% of them trade across all three products.

Just looking back over the past -- say over the past three years, that number was below 40% three years ago. So we've made a fair amount of progress with that penetration across all three products.

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

Got you. And is there anything limiting that number from moving up 70%, 80% over the next couple years?

**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

I think that is a realistic target, Mike. There are some specialized clients that might be only involved in high-yield or EM, for example. But I think 75% or 80% is a reasonable target.

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

Got it, great. And then appreciate some of the commentary on the success with the Open Trading here early days. Would you be able to quantify -- give us some sort of metric, whether it's what percentage of overall volume is coming from Open Trading now or as a percentage of market share, what are you seeing today?

**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Sure, I'd be happy to. We have got the sequential growth numbers that we outlined earlier in the prepared remarks, and completed Open Trades are still less than 2% of our overall volume, but obviously growing at a fairly active pace. And I do think that the Open Trading solutions give investors another reason to bring order flow into the MarketAxess system. So I would credit the Open Trading solutions with some of the investor order flow growth that we saw during the quarter, which, as I mentioned earlier, was up almost 40% year-over-year.

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

Got it. Assuming these are maybe slightly larger trades than average that you're doing on this system, can we infer that maybe as a percentage of notional value traded it's maybe slightly above 2%?

**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

I don't think there has been any meaningful change in the average size trade on the system or in Open Trading versus the traditional client-to-dealer business. We are obviously working on solutions that would address different trade sizes, and some of those enhancements and new protocols will be rolling out over the coming quarters. But to date, there is no significant difference in the average trade size.

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

Great. And then one last one here on Open Trading. In terms of your top 10 institutional client customers in the high-grade business, can you give us a feel for how many of those are actually active right now in the Open Trading protocol?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

I think it's safe to say that all 10 of them would be active in some aspect of Open Trading. The first, as you know, Mike, is making orders public to all system participants through Market Lists. And as we outlined earlier, we are up over 70% of overall orders that are going into that open Order Book. And I think it's a safe assumption that all of our largest clients are utilizing that functionality.

With respect to [prices back] and completed trades that's growing pretty rapidly every quarter, and I'm sure we would find that all 10 of the largest clients have been involved in prices back and completed trades as well.

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

Got it. Great, guys. Congrats on a solid quarter and thanks for taking my questions.

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**Operator**

Patrick O'Shaughnessy, Raymond James.

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**Patrick O'Shaughnessy** - *Raymond James - Analyst*

Good morning, guys. My first question is -- so it's great news that we are seeing progress from the CFTC on derivative regulation. But are you hearing anything from the SEC on single-name CDS? Are they making any progress in terms of finalizing their rule set?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

We have not heard anything new at all this quarter, Patrick. And obviously, there have been quite a few changes at the SEC over the last quarter or two. But there has been no new news out of the SEC on single-name swap regulation so far.

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**Patrick O'Shaughnessy** - *Raymond James - Analyst*

Okay, I appreciate that. Next question, so during the quarter, BondDesk was apparently up for sale and Tradeweb ended up acquiring it in September. Can you talk about whether you guys took a look at that and why it may or may not have made sense for you?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Sure, happy to. As you would expect, there is a fairly short list of likely strategic buyers for e-trading companies like BondDesk, so it would be a fair assumption that we were on that short list.

I think we've expressed potential interest in the retail space in the past. There were a couple reasons why this was not the right time or the right asset for us. First, we still find very little evidence that there is any meaningful overlap between retail prices, even in the very smallest trade sizes, and institutional prices. As a result, we didn't really see BondDesk as a strategic fit with our prioritization around the Open Trading.

And obviously any acquisition comes with a fair amount of time and attention from the management team and the rest of staff, and we decided that our current priorities are the right ones and as a result, we were not actively engaged in the end in that transaction.

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**Patrick O'Shaughnessy** - *Raymond James - Analyst*

All right, I appreciate that color. And then I guess building off that point, for my last question, despite you guys buying Xtrakter, despite you guys paying out the dividend, your cash position continues to grow. Any update in terms of maybe restarting your share repurchases or other potential uses of that cash?

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

Patrick, there's really -- the short answer really no changes in what you've seen from us in terms of capital management.

On the repurchase side, we still have a small repurchase program in place right now. We have been opportunistic in how and when we use it, but we really have done no repurchases in 2013. The Board will revisit that repurchase side of it once this current plan expires.

On the dividend side, we had targeted paying out around this one third or so of free cash flow or one third of earnings. We have increased that dividend three consecutive years now. Free cash flow is growing, the cash on our balance sheet is growing. That dividend, we've pretty much kept pace with the increase in free cash flow. We have got the capacity to move it up based on those target amounts. But again, this is something that the Board will revisit some time likely in the first quarter.

And just one side point on special dividends. A year ago, we did have that special dividend; that's not likely to be the focus right now. That was clearly at a point in time when we recognized we had built up a sizable position. It wasn't meant to be a recurring variable dividend in any way.

But think about -- going forward, think about that regular recurring dividend. That's something that we have the capacity to move up and something, again, the Board will take up shortly.

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**Patrick O'Shaughnessy** - *Raymond James - Analyst*

All right, very good. Thank you, guys.

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**Operator**

Jillian Miller, BMO Capital Markets.

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**Jillian Miller** - *BMO Capital Markets - Analyst*

Thanks, guys. Just following up on Patrick's capital question, I guess can you talk a little bit more directly about how you are thinking about buybacks and attractiveness? I mean, my sense from what you just said is that is not something you see as particularly attractive right now given the share price. But I want to make sure I'm not misinterpreting.

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

Jillian, we have been -- if you look back over the last five or six years now, when we've done these repurchases, we had one opportunistic repurchase around the JPMorgan sale and secondary offering. And then we've had a series of ongoing repurchase plans. We repurchased those shares at what have turned out to be attractive levels. The stated purpose for most of the recurring plans had been to offset the increase in our diluted share count caused by equity grants.

If you look that now over the past seven quarters now, our diluted share has not moved at all. We are granting -- with the share price up, we are granting fewer shares annually, even though we are increasing the amount of the grant values, but we are granting fewer shares. So we don't have as much overhang right now in terms of diluted instruments. So we have been less active on the repurchase side.

And if we do put something in place, if we do put a repurchase plan in place or extend or replenish the one that we have right now, there would be a grid that we would set up that would be sensitive to the share price. So we'd set up a 10b5-1 program at that point in time.

But it's something the Board will revisit. It hasn't been high on the priority list in the last 15 or 18 months right now.

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**Jillian Miller** - *BMO Capital Markets - Analyst*

Okay, thanks. And then when you guys were integrating Aladdin, I remember you saying that you basically installed the technology that would kind of actively scrape their real-time blotters to find matches with other Aladdin users, instead of just passively uploading a static list, which is the way that your other client-to-client business is working.

So I just wanted to get a sense for how specifically that technology is working. Is it having an impact on the level of client-to-client matching? And if so, could it be rolled out to additional order management systems over time?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Sure. The first stages of integration with Aladdin have resulted in improved efficiency for Aladdin clients in accessing and transacting through our Open Trading solutions, and also increased visibility of potential matches. So there is a deeper level of integration between MarketAxess orders that are available in Market Lists and the Aladdin system, which has been a benefit to the Aladdin clients and also a benefit to Open Trading activity on the system.

The tangible results of that are starting to come through in the third quarter, with growth rates in Open Trading transactions and volume through the Aladdin network that are in excess of the overall system.

We do think there are more opportunities to continue to increase efficiency and integration for other clients, and some of those efforts are ongoing. But the primary focus right now is making sure that we deliver on our commitments to BlackRock Aladdin and get that integration set up in the best way possible for Aladdin clients.

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**Jillian Miller** - *BMO Capital Markets - Analyst*

Okay, thanks. And then a final question on market share. I know it has been obviously higher recently, and I guess I had been thinking that it was related to the fact that you have a higher hit rate when customers are selling rather than buying bonds. But it sounded like in your prepared remarks that you were guiding us more to the fact that this is a behavioral shift, an accelerating electronification in the market that should be sustainable regardless of what's happening with the mix of business.

So I guess am I thinking about that right? And what do you see that's giving you confidence that this is kind of a sustainable behavioral shift ?

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

On the market share, we had the one slide which gave you a little bit of a breakdown between market share improvement and the piece attributable to increase in investor order flow and then dealer hit rates. Clearly, the dominant piece of the growth in market share has been around investor order flow.

Quite frankly, in the third quarter, we did not benefit from any tailwinds. And I say that because block trades, which you know we do better in non-block trades, the percentage of TRACE volume in block trades was flat quarter over quarter. So we didn't benefit from a tailwind there.

We didn't benefit from the new issue environment. There was a very healthy new issue environment, a lot of it driven around what happened in October with Verizon. But you had new issues up -- unusually up sequentially quarter-over-quarter and up year-over-year.

And even in terms of -- Jillian, picking up on the bid-offer piece of it, in the third quarter, it was a very balanced order book that we experienced in our platform, about a 50-50 mix, which was actually down; in the second quarter it was favoring the bid size.

So we did not have tailwinds from those three areas which typically -- or we may have had some tailwinds in the past in terms of block trades, new issuance or the bid-offer mix. It's really -- and Rick has mentioned a couple times about increased order flow. It's really increased order flow that's driving that market share.

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**Jillian Miller** - *BMO Capital Markets - Analyst*

Okay, great. Thanks, guys.

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**Operator**

Niamh Alexander, KBW.

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**Niamh Alexander** - *KBW - Analyst*

Thanks for taking my questions and congrats on the quarter. Investments, can you just -- I mean, it seems like right now you have got three major investments underway. We've seen you've got some things going on with Xtrakter, the SEF and then the all to all. Do you mind just taking a little bit of time now to expand on exactly what you are doing there?

And then from what I can understand, it sounds all good. But there's also probably a bit of a drag on the operating margin right now as well. And when do you expect maybe to start seeing some more revenue come through from that investment?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Just to be clear, do you want a little bit more color on the investment spend during the quarter or the opportunity ahead of us?

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**Niamh Alexander** - *KBW - Analyst*

I think the opportunity ahead of you, Rick, not specifically the investment spend. It would be helpful to get a sense of maybe how much there is in terms of the drag on expenses, but exactly what are you spending the money on that you expect to see the revenue come through from.

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Right. Well, let's take them one at a time. Obviously, the SEF comes with a significant new expense for the Company, both to comply with the trading protocols that are required by the CFTC to establish all the connections with the clearing houses and the SDRs, and then to manage our new compliance and surveillance responsibilities. And as you know, we have not been charging for CDS transactions and it's something that we consistently said we will revisit at the time the rules are officially implemented, which at this point we would expect to be in late February.

Right now, the made-available-for-trade certifications are just starting, and the CFTC has said they will take 120 days to certify swaps and make them available for trading, which would then commence the period where swaps are required to trade on SEFs, as opposed to just permitted, which is where we are today.

So I do think that we will learn a lot more about the competitive position in the SEF landscape over the coming three or four months. But we would expect to see some revenue recognition beginning after the rules are finalized, which we currently expect to be in the first quarter.

Open Trading is a huge investment area for us and a big focal point for the Company, and it is driven directly by investor demand. There is far greater recognition today than there was a year ago that there is a real liquidity challenge in credit markets, and investors are changing their behavior to promote new and more open sources of liquidity. And we think that's reflected in the increase and acceleration of order flow into the MarketAxess system.

We are still in early days. As you know, we just had a record quarter with about 15% of the high-grade overall market share. And in the past, where investors have viewed electronic trading as a nice-to-have, we are moving into a phase where they view it as a must-have.

And I do think that all of the research that you've seen that suggests that investor market share is likely to be higher in electronic trading in the coming years is because of the increased recognition of the liquidity problem and the liquidity challenge brought on by the regulatory changes. And we are investing very heavily to be out in front in providing those solutions to our clients.

So we think it's part of why our core business is doing better and we certainly view it as a significant part of the future.

In Europe, obviously, historically, we have not done as well in the European region as we have done here. We have talked in past calls about the differences in trading protocols and practices in the region. Having said that, the liquidity problem in Europe is arguably worse than it is in the US. So we are optimistic that the investments in a comprehensive solution that will promote real-time data, new trading protocols to increase liquidity and post-trade solutions will get us on a much better growth track over the coming years in Europe. And everything we have seen since the acquisition of Xtrakter would tell us that those assets are going to be core to our business in Europe, and we are working very closely with our dealer and investor clients to further develop both the data products and the post-trade services through Xtrakter.

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**Niamh Alexander** - *KBW - Analyst*

That's helpful. Thanks, Rick. I appreciate it. I mean, I guess just on the Xtrakter a little bit, there was talk of tape -- there is no required tape as of yet still. We don't know when the rule will be implemented. But you are working with something on the dealers now. I mean, do you think you can see new revenue from that in the next year? Is there anything you can share with us in terms of how to think about the potential new revenue opportunities?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Yes, no question about it. We are marketing existing data products through Xtrakter, and we are also working very closely with the industry to develop new and valuable data products. And because of the lack of quality price and volume information in European fixed income, we believe we have a significant opportunity to promote the data products. And that we believe will help not only to generate revenue synergies through the acquisition, but we also think integrating those product capabilities will increase the attention on our trading product.

So work in progress there. We don't have any specific targets or goals to share with you, but we certainly believe that that will be part of the value that our shareholders will see from the Xtrakter acquisition.

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**Niamh Alexander** - *KBW - Analyst*

Okay, fair enough. Thanks, Rick. And then I guess you mentioned on the call that you had some -- you were rolling out some new functionality to the dealers and that you've had success with -- was it on the Aladdin platform? Can you expand on that and what is it that you are rolling out?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Yes, I think that with all of our Open Trading solutions, they are inclusive of both dealer and investor trading activity. And one of the things we are doing, as you know, we've had a dealer-to-dealer capability primarily to help dealers turn over inventory positions more actively in their secondary credit books. And in the past, those orders have flowed purely between dealers.

But one of the enhancements rolling out this quarter will allow dealers to access all system participants through Market Lists if they choose to in those dealer-to-dealer orders that are often conducted through lists. So we really are completing the circle so that the systemwide liquidity is available to our dealer customers as well as to our investor customers.

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**Niamh Alexander** - *KBW - Analyst*

Okay, fair enough. Thanks. And last thing, just some of your functionality, I understand you've been doing it with select clients so far. It's a lot more of pulling the trade, because it allows you to access the customer's blotter and then flag the customer as an actual match, which it is much easier to cash the trade that way.

Have you made any progress with rolling that out to other order management system providers, or any dates you could share or times on getting that out? Because it's something we've seen in the equities world that has been very effective for pulling in trades?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Yes, we are -- as you know, we are integrated with all of the major order management providers today. The new level of integration, as I mentioned earlier, is ongoing with BlackRock Aladdin. And we will revisit opportunities to improve efficiency and matching opportunity for clients through the other OMS providers.

We are also doing some further connectivity work with individual large clients that are active with us. So this has been an ongoing effort over the last 14 years. It's not only client onboarding; it's deepening the level of integration with their own trading systems so that we can improve the efficiency of trading for them and now improve the matching opportunities to increase liquidity and reduce transaction costs.

**Niamh Alexander** - *KBW - Analyst*

Okay, I will get back in line. Thank you.

**Operator**

Hugh Miller, Sidoti.

**Hugh Miller** - *Sidoti - Analyst*

Good morning. Thank you for taking my questions. I guess starting off with a housekeeping one. I didn't hear it on the call, but did you guys talk about your expectation for share capture for the October month so far, as we are looking at it?

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

We did not have a comment in there on October. More so this call than any other call, we still have seven trading days remaining in October. So we are just about two thirds of the way through the month.

What I can tell you just around TRACE volumes -- and you may have seen the same numbers -- TRACE volumes for October have been fairly healthy. The ADV is over $13 billion for high-grade, down from the robust September levels, but up slightly from last year. High-yield TRACE volumes look like they are in line with both September and October of 2012.

But in terms of color, every time we give color on share, with a lot of days remaining, there is some guesswork involved here. So it's seven days remaining, it is just a long period of time and we're just not going to provide that sort of color right now.

**Hugh Miller** - *Sidoti - Analyst*

Okay, okay. I guess in talking about the overall industry, and as you mentioned, I think I was seeing $13.2 billion for October. It is up about 1% year-over-year, down 14% month-over-month. But I think historically, it has tended to be an erratic month for volume. Sometimes it can be up from September, sometimes it can be down.

Is there any reasoning for that? I know typically, there tends to be some late-quarter volume activity by managers, which tends to then result in a sequential decline. But is there anything in particular about October that's an unusual month for any reason?

**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Yes, I think any first month of the quarter -- and this is all a lot of detail -- but the first month of the quarter does tend to be the most active for new issues, and as corporations get into their blackout windows towards the latter end of the quarter, new issue volume tends to decline.

And I think, as you know, given that our market share does fluctuate around new issue activity levels, there's some logic to why often times the first month of the quarter is the weaker of the three.

But as you know, historically in the fourth quarter, share is higher as we approach year-end, as the market is inundated with smaller trade sizes and year-end fine-tuning of portfolios and generally light new issues. So that's certainly been the pattern in previous years in the fourth quarter.

**Hugh Miller** - *Sidoti - Analyst*

Sure, yes. Certainly I understand that. And I guess looking at the -- you guys had talked about the efforts with Xtrakter and kind of strengthening the analytical product offering you guys expect to have out there.

Can you talk about the time frame that we should be thinking about there in terms of integrating that real-time data, being able to provide something to your clients? And is the expectation to charge for that offering or is that something that will be included in order to strengthen the volumes on the system?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

A little bit of both. And in terms of timing, we are already offering the existing Xtrakter data products through MarketAxess BondTicker. So the integration has been complete with the existing product base.

New products are likely to be rolling out over the next 3 to 6 months, and I would expect to start showing progress on some of the revenue synergies over the first half of 2014.

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**Hugh Miller** - *Sidoti - Analyst*

Okay, that's very helpful. And then you guys gave some great color and have been talking about the efforts with Aladdin to scrape the blotter and how it has provided some benefits here. But you refer to that as being initial.

Can you talk about what other steps you foresee being able to do with the partnership with BlackRock and other things that could potentially provide greater order flow outside of this initiative?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Yes, I would put it in two categories. One is the technology integration that we've talked about a few times this morning. And the other is just very high-quality feedback and input into our protocol enhancements and next steps.

It's a great asset to the Company to be working so closely with a large and influential investor like BlackRock, and not just BlackRock, but the Aladdin client community. As we mentioned a few quarters ago, BlackRock estimates that the Aladdin clients generate 20% to 30% of TRACE volume. So it's a significant base of large clients that they work very closely with through their enterprise software -- investment management software. So the alliance and the partnership comes with not only the benefits from technology integration, but the validation that we are the right venue for Open Trading, and the work that's being done with the Aladdin clients to develop the right protocols to continue to improve liquidity in credit markets.

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**Hugh Miller** - *Sidoti - Analyst*

All right, that's very helpful. And the last question I had was with regards to pricing for index trading for CDS. Obviously, you guys had mentioned that for the first quarter, you are likely to start to price that out and charge for the trades. We have been hearing about very competitive pricing there, and wanted to see if you were hearing any changes in the direction on pricing.

And in addition, would you anticipate -- and I realize the competitive landscape will be very different for single-name whenever that does come about -- but should that be very different in terms of how price-sensitive clients will be?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

As I mentioned earlier, it's too early to tell. We are very much in preseason for SEF trading. Until the regular season starts, it's very difficult to anticipate what the competitive landscape will look like.

What I can tell you is that we are ready for full compliance with CFTC SEF rules today. We have pretrade credit checking in place and we comply with the impartial access rules. We are not certain that all of our competitors do. And so there's a lot to be learned here over the coming three or four months to see where SEFs really shake out for index products.

We are -- as I mentioned earlier, we have no new news on SEC rules for single-name CDS swaps. Having said that, we are very pleased with the progress that we are making with our partner in Barclays in the single-name central limit order book. And they continue to make markets in a broader range of single names, they are marketing the capability with their clients and they are approving more clients for trading on that central limit order book.

So we don't believe that our ability to gain momentum and potentially think about revenue models in single names is necessarily dependent on the SEC schedule. We like the track we are on and we are very pleased that we have that capability as part of our suite of protocols for the CDS market.

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**Hugh Miller** - *Sidoti - Analyst*

Okay, all very fair points. I appreciate the color. Thanks.

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**Operator**

Michael Wong, MorningStar.

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**Michael Wong** - *Morningstar - Analyst*

Good morning. Just one SEF competitive landscape question from me. Do you have a sense of how interconnected SEFs will be? Does it look like they will be just many separate pools of SEF trading liquidity?

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

I don't know how many, but there certainly will be multiple pools. And right now, I think clients are accessing them independently. I am sure that clients and dealers will develop their tools to make sure they can access pricing for the different SEFs. And transparency is certainly increasing in the swap world, but we are not aware of anything beyond individual client's or dealers' ability to aggregate pricing.

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**Michael Wong** - *Morningstar - Analyst*

Okay, thanks.

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**Operator**

Jillian Miller, BMO Capital Markets.

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**Jillian Miller** - *BMO Capital Markets - Analyst*

Thanks, I just had a couple quick numbers questions. Did you guys say what your CapEx was for the quarter?

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

We didn't give the CapEx number for the quarter and we didn't freshen up the guidance. I will tell you that for the full year, we are still looking at CapEx numbers in that $21 million to $24 million range. Year-to-date CapEx we are about $17 million or so. So fairly big spend in the third quarter.

And we have got some items -- and we've flagged these in prior quarters -- but we do have some items that would be more of a non-recurring -- I hate to say one-time -- but I'll say more nonrecurring. We did have a primary production data center buildout which just went online in the third quarter. We are just in the middle, and hopefully 30 days away from moving into new office space in London, where we are combining two offices, so there is a buildout there. And some of the Xtrakter-related capital expenditures are a bit nonrecurring in nature.

But we haven't freshened up the guidance. It's still $21 million to $24 million, and a chunk of that wouldn't necessarily recur.

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**Jillian Miller** - *BMO Capital Markets - Analyst*

Okay, thanks. And then on the tax rate, I think you guys said absent all this funky stuff going on, it would be around 38%. So am I right to think about -- like looking at fourth quarter and 2014, am I right thinking it should be around 38%?

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

Yes, you did hear correctly. And we had a couple of items -- and you may recall back in the first quarter, the research credit was reestablished. And President Obama had signed a law back in early January to reestablish the research credit retroactively. So we had a bit of a tax benefit in the first quarter which related to 2012. And then in this quarter, the third quarter, half of that tax benefit we recorded also related to 2012.

And you read it exactly the way we hoped it would come out, where if you pulled out some of that noise around prior-period impact, the effective tax rate for this year would be around 38%.

It's a little early to give guidance on 2014, but we will do it on the fourth-quarter call. But you're looking at that 38%, that's probably the best proxy we can give you right now for thinking about 2014.

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**Jillian Miller** - *BMO Capital Markets - Analyst*

Okay, thanks.

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**Operator**

Mike Adams, Sandler O'Neill.

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

Just one follow-up on the distribution fees. Tony, I think you mentioned that there was one dealer earlier this quarter that moved from the regional to the major plan. So a couple of dealers down in the past two quarters. We've also seen volume -- high-grade volume more than double over the last few years. So I think clearly you are seeing some of the value in the order flow that's coming across the platform now. But yet you haven't really changed those monthly distribution fees in years. I'm just wondering when was the last time you looked at that, and is that something that potentially you guys might be taking a look at the value that you are now providing to dealers.

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

Mike, we do think about the distribution fees and the level of those fees. And you are right, we basically have not changed those fees since 2005.

When you look at the dealers, they are seeing more order flow, and the real cost of participating on our platform, at least in terms of the high-grade plan, the dealers in the major plan really would look at those distribution fees. We think we are at a -- sort of reached a happy medium here.

And arguably, we could move up those distribution fees given the increased order flow. I can't say it's high on our list of pricing strategies or pricing schemes that we are considering right now. So the expectation forward-looking in the near-term is really no change in that average level of distribution fees charged to the major dealers.

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

Okay, great. That's it, thanks.

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**Operator**

(Operator Instructions). We have no further questions. Thank you very much for your questions, ladies and gentlemen. I would now like to turn the call back to Mr. Rick McVey for closing remarks.

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**Rick McVey** - *lMarketAxess Holdings, Inc. - Chairman, CEO*

Thank you for joining us this morning and we look forward to talking to again next quarter.

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**Operator**

Thank you all, ladies and gentlemen. That concludes today's conference call. You may now disconnect your lines. Have a good day, thank you.

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