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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by. (Operator instructions.)

As a reminder, this conference is being recorded Wednesday, April 27, 2011.

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 2011 conference call. For the call, Rick McVey, Chairman and Chief Executive Officer, will review the highlights for the quarter; Kelley Millet, President, 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 may 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, 2010. 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.

Rick McVey - *MarketAxess Holdings Inc. - CEO & Chairman*

Good morning, and thank you for joining us to discuss our first quarter 2011 results. We are pleased to report another set of strong quarterly results, with record revenues of $43.6 million, up 25% from a year ago, and record pretax income of $17.7 million, 59% above the first quarter of 2010. Diluted EPS improved to $0.27, compared to $0.17 one year ago. Variable transaction fees were the largest contributor to revenue growth and were up 33% from a year ago, primarily due to higher US high grade volume as well as strong volume growth in our Other product category.

Total trading volume was a record $135 billion, up 36% from a year ago. Fee capture per million traded remained strong due to long average high grade bond maturities, attractive regional dealer fees and a higher quality mix of bonds traded in our Other category. We are very pleased with the sequential growth in estimated high grade market share, which has expanded in the past six months from 8.3% in the third quarter of 2010 to 9.9% in the first quarter of 2011.

Slide 4 displays some details on our financial strength. Our cash and securities balance at March month end was $196 million, or $4.99 per diluted share, and remained largely unchanged compared to year end 2010. As a reminder, annual employee bonuses were paid in January.

For the first quarter, EBITDA grew to $19 million, and our EBITDA margin reached 44%, up from 36% one year ago. Operating margins exceeded 40% for the first time and demonstrate our ability to deliver healthy incremental margins while continuing to invest in new initiatives. Incremental margin was 75% versus the first quarter of last year. Our 12-month trailing free cash flow increased to $60 million from $36 million one year ago. The Board of Directors has approved a quarterly cash dividend of $0.09 per share. The current dividend rate represents a payout of approximately 23% of the trailing 12 months free cash flow. Our Board will continue to consider capital management opportunities for our shareholders.

Slide 5 provides an update on the current regulatory reform and our Credit Default Swap platform. While we are pleased overall with the OTC derivative trading rules proposed by the CFTC and the SEC, much uncertainty remains on the timing of implementation. We are actively engaged with the regulators and continue to provide input to them as they work to finalize the rules. We continue to expect rules to be finalized over the summer months, but there is a growing chance that some rules will not be finalized until the fall.

The big picture remains the same. Standardized swaps will be required to be traded on an exchange or a SEF. We believe approximately 75% of CDS trading will be considered standardized. The regulators have been talking more consistently about phasing in the implementation of new rules, which we would now expect to move into 2012.

In the meantime, we continue to enhance our product and build important connectivity to our customers, prime brokers, affirmation hubs and clearinghouses. CDS currently represents the largest investment we are making in product capabilities in the Company. Some of the CDS trades completed this quarter were submitted for electronic affirmation and central clearing, a model for the new market envisioned by Dodd-Frank regulatory reform. We stand ready to provide technology solutions to our customers to help them comply with the new regulations.

Now let me turn the call over to Kelley to provide more detail on the business results.

Kelley Millet - *MarketAxess Holdings Inc. - President*

Thank you, Rick.

Slide 6 provides an update on market conditions. First quarter market conditions remained favorable for fixed income e-trading activity. High grade credit spreads were little changed and ended the quarter at 110 basis points over Treasury. Credit volatility picked up but has remained within a fairly tight range over the past six quarters.

High grade new issuance was very strong during the quarter, reaching $248 billion. The first quarter marked the highest level for nongovernment guaranteed new issue bonds since the second quarter of 2008. Secondary US high grade trading volumes were a robust $860 billion during the first quarter, up 31% from the fourth quarter and 11% from a year ago. Of interest, the record trades volumes were achieved even though there was a slowdown in bond fund inflows.

Slide 7 highlights our improved client and dealer participation. Primary dealer corporate holdings continued to remain low as the concentration of dealer trading activity has dispersed. From a broader market perspective, the percentage of high grade trades volume conducted outside of the top 25 dealers grew to 27% in 2010, compared to 16% in 2007.

Consistent with the overall trades trend, trading on our platform reflects the broader participation of new trading partners. New dealers accounted for approximately 23% of the trading by count and 15% of trading by volume during the first quarter. The decline in new dealer activity in the first quarter of 2011 was principally due to trading changes at a single dealer. Importantly, execution fees generated from new dealers subject to the all-variable regional fee plan was consistent with fourth quarter levels.

The increase in our estimated US high grade market share over the post credit crisis period has been driven by a combination of better dealer hit rates and improved investor inquiry volume. Our estimated market share increased to 9.9% for the first quarter, compared to 7.9% in the first quarter of last year, with a majority of the improvement attributable to higher investor inquiry volume. As dealer hit rates are now approaching pre credit crisis levels, we believe that increased investor inquiry will be the dominant contributor to further market share gain. Our April month-to-date estimated US high grade market share is in line with March levels.

Slide 8 summarizes the trading volumes across our product categories. Overall, global volume was up 36% year over year, to $135.2 billion. Record quarterly volumes were reached in US high grade, emerging market and agency bonds. US high grade volume rose to $85 billion, up 39% year over year and up 35% from the fourth quarter. Market share gains and higher overall trades volume led to the record quarter. We are particularly pleased with the 30-basis-point gain in sequential market share from the fourth quarter of 2010. Due to seasonal factors we have typically registered a sequential market share decline in the first quarter.

Eurobond volumes were down 29% from the first quarter of last year but remained stable from the fourth quarter of 2010. We are using a three-pronged strategy to grow our European business. First, we are focusing on improving our service delivery in the core Eurobond business. Second, we are actively engaging and connecting our US clients to trade Eurobonds with our UK dealers. And, third, we continue to grow the volumes of our higher margin North American credit trading products transacted by European clients. North American volume traded by European clients has grown from (inaudible).7 billion in the first quarter of 2009 to $7 billion in the first quarter of 2011.

Finally, supported by strong inquiry volume growth, the Other product category volume increased to $39 billion, up 78% from a year ago and 28% from the fourth quarter of 2010. We have experienced an increase in both volume and quality of product traded. Of note, we are generating consistent growth in higher margin products, with an increase in both emerging market corporate and true high yield volume.

Now let me turn the call over to Tony for more detail regarding our first quarter financial results.

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Thank you, Kelley.

Please turn to Slide 9 for our earnings performance. Revenues of $43.6 million were up 25% from a year ago, driven by transaction and distribution fee commission growth. Total expenses were $25.9 million, up 9% from the first quarter of 2010. The expense increase was higher than our five-year compound annual growth rate of 7% and reflects a ramp-up in SEF-related spending.

Pretax income was a record $17.7 million in the first quarter, up almost 60% from last year. Incremental margins were 75% year over year. Our effective tax rate for the first quarter was 39%, in line with our full-year 2011 guidance of 38% to 41%.

Our diluted earnings per share of $0.27 was the highest we have generated as a public company. The diluted share count for the first quarter of 39.3 million was up 650,000 shares compared to the fourth quarter of 2010 and reflects the impact of our increased share price and annual equity grants in January. At current share price levels, our diluted share count would change by approximately 100,000 shares for every $1 movement in our average share price.

On Slide 10 we have laid out our commission revenue, trading volumes and fees per million. Record distribution fees of $15.2 million were up $2.9 million from the first quarter of 2010, due mainly to the migration of several dealers from the regional dealer plan to the major dealer plan in the second half of 2010 and early 2011. We expect distribution fees over the next several quarters to be consistent with the first quarter level. The movement of dealers from the regional to major billing plan was the principal driver behind the $20 decline in US high grade transaction fees per million versus the fourth quarter of 2010. The migration to the major plan was approximately revenue neutral, as the decline in variable fees was offset by an increase in distribution fees. US high grade fees per million continues to be favorably impacted by the longer average years to maturity of bonds traded on our platform.

The Other product category fee captured declined to $176 per million for the first quarter of 2011, compared to $186 for the fourth quarter of 2010. The growth rate in agency trading volume has outpaced emerging markets and high yield bonds, leading to an overall decline in average fees per million in the Other product category.

Slide 11 provides you with the expense detail. Total expenses for the first quarter were up 9% from a year ago and 7% sequentially from the fourth quarter. The majority of the expense increase was due to a ramp-up of SEF-related expenses and a higher incentive bonus accrual resulting from the improved operating performance. The decline in general and administrative expenses was primarily due to the settlement of a favorable tax reimbursement claim amounting to approximately $700,000. We now expect that full-year 2011 expenses will be towards the upper end of the $101 million to $107 million guidance range that we've provided in our last earnings call. We are operating at a higher revenue level than several months ago, and the range of expense outcomes for our SEF and CDS activities has also narrowed. We would expect further clarity in our SEF spending once the rules are finalized later this year.

On Slide 12 we provide balance sheet information. Cash, cash equivalents and securities as of March 31 were $196 million, compared to $197.5 million at year-end 2010. Strong cash flow generation during the quarter largely offset the seasonal reduction from the annual cash bonus payments. Free cash flow for the trailing 12 months was over $60 million, including a deferred income tax benefit of $16 million. We have US federal tax loss and credit carryforwards available to partially shelter taxable income in 2011. We expect to be in a federal tax-paying position beginning in the second quarter. We continue to have no bank debt. Our capital structure was also simplified with the conversion of the Series B preferred stock to common stock during the first quarter.

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

Rick McVey - *MarketAxess Holdings Inc. - CEO & Chairman*

Thanks, Tony.

The record results of the first quarter were gratifying and show robust growth in many product areas of our business. Our addressable market is large and expanding, with strong industry bond volumes and demonstrable growth in the Other product category. Our financial model is proving to be scalable, with strong momentum in revenue growth, operating margins and earnings. Revenue growth is also the key ingredient driving investment resources for new product areas, most notably CDS. We see a bright future in providing innovative electronic trading solutions to our customers in both bonds and OTC derivatives.

With that I would be happy to open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions.)

And your first question comes from the line of Patrick, with Raymond James. Please proceed.

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

Hey, good morning, guys.

Unidentified Company Representative

Good morning, Patrick.

Unidentified Company Representative

Good morning.

Unidentified Company Representative

Good morning, Patrick.

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

First I want to push on some of the CDS and [swap back distribution] facility initiatives that you're working on. What sort of feedback are you getting from the buy side and the sell side when you're going to them with your offering, and how is that impacting the development of the product?

Rick McVey - *MarketAxess Holdings Inc. - CEO & Chairman*

I think that our product enhancement is being driven primarily by their input, which is why we continue to expand the trading protocols that are available to them in CDS. For example, this quarter, Patrick, one of the things that we've been doing is taking direct feeds from some dealers to be prepared for streaming prices and click-to-trade protocols in the index area in particular. So the feedback that we're getting is very positive in terms of the path that we're taking for trading protocols and also post trade connectivity into affirmation hubs and clearinghouses. As you well know, there's still a lot of uncertainty about the final rules and the implementation dates, and as a result I think people are a bit in wait-and-see mode to see how things develop over the next three or four months, but we are seeing demonstrable activity coming from both dealers and the buy side with respect to preparing for the changes.

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

Great. That's helpful. And then, switching gears to your core US high grade business, certainly we've seen some acceleration in market share gains over the last few quarters. Where do you think that really comes down to? Are you hitting some sort of inflexion point where market share kind of begets more market share, or are there some market dynamics taking place that are playing to your advantage?

Kelley Millet - *MarketAxess Holdings Inc. - President*

Patrick, hi, it's Kelley. As I mentioned earlier in the prepared remarks, we have seen our hit rates really approach kind of pre-crisis highs, and, although there may be some modest room for improvement there the dominant improvement in share, therefore in traded volume, will come from increased inquiry flow. So there's a number of things that we've done. We've increased the size and I think the quality of our sales force. We've worked very closely with a number of our large what I'll call big users in providing custom workflow solutions on the technology side.

We also are going after aggressively a number of what we call the late adopters, who are either only modestly engaged or not engaged at all, and utilizing a number of different tools, again, technology, but also using a lot more analytical work from the best execution perspective, TCA perspective, to demonstrate not only the efficiency benefits of electronic trading but the actual cost savings associated with using electronic trading as an integral part of the trading desk, and I genuinely believe that we're finding traction across all those fronts.

I caution, then, that we try to look at market share gains on a quarterly basis in that month to month you can have variability in market conditions, holidays and the rest. But we are pleased with the sequential gain, and we would look for continued gradual quarterly sequential gain in share as we continue to execute both our technology and our sales strategy.

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

Got you. And then one last question for me before I jump back in the queue. When we look over at Europe, this certainly seems to have stabilized right now, but when do you think we might see some sort of inflexion point over there where you would see your commission growth start to accelerate and maybe some of the strategies that you've implemented really start to pay off?

Kelley Millet - *MarketAxess Holdings Inc. - President*

It's a very good question. As you know, the market environment as a whole continues to be a little bit weaker than the US due to the sovereign debt crisis, with the most recent volatility associated with Portugal. We believe we are now delivering enhanced technology, custom workflow and FTP solutions in a focus on our core Eurobond business, and I think that's a six- to nine-month process specifically related to European accounts transacting Eurobond products.

What we're quite excited about is really the cross-border capability that we have at MarketAxess that I genuinely believe is unique. In that mean and I mentioned the ability of North American products being traded by European customers, and that has grown substantially, as I mentioned earlier. And we're getting very, very positive feedback from Tier One US clients seeking to trade Eurobonds with our UK dealers, and we would expect to see that to show demonstrable increases in volume from the US into the UK in Eurobond volumes in the second half. So, generally speaking, I think the second quarter would probably be more in line with the first quarter, but I think we'll begin to see payback in terms of volumes both in the core business and in what I consider to be the cross-border flows in the second half of this year.

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

Great. Thanks for that detail.

Operator

Your next question comes from the line of Howard Chen, with Credit Suisse. Please proceed.

Howard Chen - *Credit Suisse - Analyst*

Hi, good morning.

Rick McVey - *MarketAxess Holdings Inc. - CEO & Chairman*

Good morning, Howard.

Howard Chen - *Credit Suisse - Analyst*

Maybe one for Rick or Kelley. Could you just touch on how you think about the upcoming expansion of TRACE on the MBS/ABS market and maybe frame that potential opportunity for the Company? How big do you see that?

Kelley Millet - *MarketAxess Holdings Inc. - President*

Howard, it's Kelley. As you're probably aware, we had a launch in February of this year of our ABS product, and I think people are aware that it is a fairly narrow product offering to begin with, and that is in the consumer area of Cards, ARS and the like. And, as you know, that's a relatively small part of the marketplace. We've had the typical growing pains of gathering the dealer momentum and then gathering the client momentum as well. We're pleased to where we are to date, although we don't think it will have a material impact on both volumes or revenues in the second quarter.

We do believe that in addition to those products we will seek to expand our product offering into CMBS, RMBS and non-agency CMOs. So if I were to look at that in terms of an addressable market, from what we can see that's about approximately half of the turnover, or thereabouts, on TRACE, if I were to look at all of that product. So hopefully that gives you a bit of a sense in terms of where we are in terms of the initial ramp, our planned product expansion and sort of what we think the average turnover could be, which would be approximately 50%, or thereabouts, in terms of TRACE high grade ADV.

Howard Chen - *Credit Suisse - Analyst*

That's really helpful. Thanks, Kelley. And then it's been a while since we received an update on the technology services business, so I was just wondering, could you just update us on what you're seeing, whether it be pipeline or backlog, on that side of the business, and just update us on where you think we are in some of these secular trends liked fixed connectivity, etc.? Thanks.

Kelley Millet - *MarketAxess Holdings Inc. - President*

Right. Again, it's Kelley. We had a slightly softer first quarter in overall technology services versus the sequential trends in 2010. As you know, the first quarter -- or you may not know, the first quarter tends to be more variable in terms of license sales and the timing of those license sales due to the setting of budgets and in a sense the syndication of the cost of those budgets across the customer base.

We see our pipeline continuing to remain strong. We still see a very good demand for our fixed products, and we continue to enhance those fixed products. It's still early to understand what the remainder of the year will look like, but we look for a solid

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performance from technology services, both the Greenline and our other technology services businesses, and also feel that this business as a whole is very integral in providing connectivity and glue to the core trading mission.

So overall an okay first quarter, but we would expect the year to improve from that level, but still sort of early days. But again I emphasize we're very pleased with the nature and the expertise and the onboarding and connectivity expertise that this business gives us to provide glue and barriers to entry to our core trading businesses.

Howard Chen - *Credit Suisse - Analyst*

Great. Thanks, Kelley. And then final one from me, whether it be in the exchanges or the online brokers, I mean, we're seeing a pickup of consolidation in the space. I mean, Rick, the Company's got a lot of focus on organic growth here, but just could you touch on, I mean, your appetite and the feasibility to engage in something more transformative here for the Company?

Rick McVey - *MarketAxess Holdings Inc. - CEO & Chairman*

I think you nailed it. We're very focused with organic growth and the acceleration of growth trends that we see in many product areas here. So there's plenty of upside left in our core business, and that continues to capture the majority of our attention. The exchange consolidation that you mentioned has been mostly focused on equities and exchange-traded derivatives. We are, as you would expect in a small industry, in touch with lots of other players every quarter. We've said repeatedly we are happy to look at acquisitions as a way to expand the product range of activities that we have here. But at this time we're pleased with the organic trends, and we see a lot of runway ahead of us in our core business.

Howard Chen - *Credit Suisse - Analyst*

Great. Thanks a lot.

Operator

Your next question comes from the line of Mr. Alexander, with KBW. Please proceed.

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

Hi. This is Niamh Alexander. If I could touch on the core investment grade, Rick and Kelley, because the market share gain has just been phenomenal, and even though, I guess, in your sweet spot of non-block orders industry volume was up like 10% or 11% last year, you were up 30%. But so far, it's only one month, but April we're starting to see volume really turn down, worsening in every product in most countries. But how can we think about the momentum you talked about in market share? I mean, you said share was kind of similar April to March, so should we kind of start to model a little bit closer to the market dynamics as in volume down, we might expect your volume to be down, as well, or do you think the share gain momentum can more than offset that?

Kelley Millet - *MarketAxess Holdings Inc. - President*

It's Kelley. I think it's a very good question. I try not to extrapolate in terms of the TRACE ADV from April as an indication of sort of the trend for the full year. I spend an awful lot of time with the dealer and client community, and they all expect the full year to be quite healthy. April can be a very interesting month with both the Easter and the Passover holidays, the London bank holiday as well as, obviously, the upcoming holiday this Friday in the UK, as well.

The new issue market has been very robust, as you know. In the first quarter it was at about $1 trillion annual pace, although that may slow. We expect that to be probably as other sources in that $750 billion to $850 billion in terms of a full run rate. In addition, bond inflows, although modestly slower, continue to be positive, and we also continue to have a steep curve, which obviously most market participants feel will continue for certainly the next three or four quarters.

So I'm actually pretty upbeat in terms of the overall level of TRACE activity for the year, and I don't get too preoccupied for looking at one month as sort of an indicative trend. As I mentioned in my prepared remarks, we do believe that April market share will be approximately in line with our March share numbers, which were 10.5% estimated share. In terms of average daily volumes, as you know, we will release volumes certainly next week. It's safe to say that we will have our ADV in April much more closely aligned with our March volumes, perhaps not at that level from an ADV, than the overall decline in TRACE would indicate.

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

Okay, helpful. Thanks very much, Kelley. I appreciate it. And if I could just dig into the Other revenue line, because the growth here also has been fantastic. And you've mentioned in your prepared remarks that it was more the agency than the emerging markets or high yield that is kind of taking over and that was partly driving the rev capture a little lower. But help me understand where, in what inning are you in terms of expanding this into this product, and help me understand your competitors there. We feel like in the corporate bond market you're pretty much the only electronic venue, but in the agency market you have some competition.

Kelley Millet - *MarketAxess Holdings Inc. - President*

As Tony indicated when looking at the average fee capture in the Other category, that was principally due to the substantial growth in our agency bonds, and they have grown remarkably year over year. In that case we compete directly with Tradeweb. I think as you're aware that is a relatively low-key per million.

So the volume story when you look at the Other category is all about agency. We like that business in that we're showing our ability to compete directly with Tradeweb, and we also like that business because, again, our vision is to be, in a sense, a one-stop shop for our customers to trade credit on market access. In terms of the importance of the other two products in that category, emerging markets and high yield, that's really the revenue story.

So, yes, we've seen growth in both volume in EM and especially in high yield, but what's most important is the mix has been very favorable, which has significantly improved fee capture in both of those products. The true high yield, and that's what I would consider to me would be price-based business, has grown substantially both year over year and sequentially quarter to quarter, and fee capture vis-a-vis crossover bonds, those that would trade on spread versus price, is more than 2X, so that's obviously very positive for the revenue contribution in high yield.

Currently we do not see a competitor in high yield. Obviously the competition is the phone. We're in early stages there where we may in a given day have 2% or 3% or 4% of the TRACE share, and we think that addressable market is very, very large. Likewise, in EM we don't see a direct competitor from an electronic perspective other than, again, the traditional means of execution by phone, and, again, we're very pleased with the change in mix. In addition to volume growth we've seen a significant change in mix, where corporate trading is now making up a significantly larger percentage of our daily volume than sovereign trading. And, again, there's a higher fee capture associated with corporate bond trading than there is in sovereign trading, as well.

So, in summary, agencies are the big story from a volume standpoint. We've got volume growth in both EM and high yield where we don't see any direct competition other than the phone, and in both EM and high yield we're seeing a much higher fee capture product mix change that we're very, very pleased with.

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

That's very helpful. Thanks for expanding on that, Kelley. Appreciate it. If I could touch on capital as well, Rick, I know in the past you had -- did you have like a target dividend yield or something like that? Help me think about what your plan is for capital distribution or maybe returning some excess capital. It feels like the OTC reform and the opportunities, they keep getting pushed back and pushed back, and I guess we'll know next week what the implementation schedule might shake out to be with the roundtable hearings coming up. But help me understand, does that give you theoretically more free cash or a couple of quarters of extra cash generated to think about distributing?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Niamh, it's Tony. We do regularly review capital management with the Board, and, really, our priorities haven't changed. So we tick down the list of regulatory and working capital requirements, and even ex-SEF related that's approximately $40 million to $50 million. We continue to invest in organic initiatives like CDS and ABS. As Rick mentioned, we're selective around the M&A activity. The dividend, we did just increase the dividend to $0.09 per share in the first quarter. And I don't believe in the near term that we will revisit the dividend. And on the buybacks, we've completed two buybacks in the last four years now. Again, we just completed the second buyback in the fourth quarter. And we will periodically revisit repurchases, as well. But I think in terms of where we are with the dividend, we're comfortable and the Board's comfortable with the level right now. The yield's about 1.5%. We're paying out about 23% or 24% of trailing 12 months free cash flow. I think we're comfortable with that level right now.

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

Okay. Thanks, Tony. Appreciate it.

Operator

Your next question comes from the line of Hugh Miller, with Sidoti. Please proceed.

Hugh Miller - *Sidoti - Analyst*

Hey, morning.

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Morning, Hugh.

Kelley Millet - *MarketAxess Holdings Inc. - President*

Morning, Hugh.

Hugh Miller - *Sidoti - Analyst*

I guess I was wondering on Slide 7 you commented a little bit about the reduction in the regional dealer trade count percentage and percentage of trade volume and explained that it was kind of due to a change in one dealer. I was wondering if you could just maybe provide a little bit more color on that and what you're seeing and whether or not that's kind of a short-term issue with the dealer or you would anticipate that that might change?

Kelley Millet - *MarketAxess Holdings Inc. - President*

Certainly, Hugh. It's Kelley. There was a material change in staffing at a specific dealer who had been clearly a leading participant on the platform in that new dealer regional dealer fee plan. It's hard to assess whether that specific dealer, in a sense, will retool and regain the kind of momentum that they had. In talking with the team, I think broadly we do believe that the participation of the regional dealers will improve from the level that we had seen in the first quarter, which was depressed by that single dealer. I do think the pace of increase will slow somewhat as you look at the overall statistics that I used in the previous page in terms of the 25 dealers and how much they contributed to the overall volume and the other dealers and how much they also contributed. So we do think there is some upside.

I think generally the way I would put it is that over the next quarter or two I would think that we would regain the lost share associated with that one dealer contribution, but I think it's likely that the pace of participation gains will slow somewhat. And, look, ultimately what we're focused on is the entire dealer group, working closely with them from a technology standpoint to ensure that our hit rates remain robust if not improve further. And, as I said before, the real dominant story here is going to be about accelerating inquiry and gaining share throughout the year.

Hugh Miller - *Sidoti - Analyst*

Okay. Great color there. And I guess as you look at the expenses in the quarter it seemed like there was a noticeable uptick in professional and consulting fees with a corresponding reduction in general admin. I was wondering if there was like a categorization change in something, or any color on what kind of drove those two items.

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Hugh, it's Tony. There was nothing in terms of classification or reclassification, and when you look at the expense increase overall it really was two areas. It was SEF-related expenses, and a large portion of that did reside in the professional and consulting. So we continue to build out our -- not only our compliance capabilities but setup-related expenses, and a large majority of that resided in professional and consulting. So that was a big driver.

And in the G&A side, not only was it that sales tax reimbursement claim, one-time event, $700,000 favorable. If you looked back last year we also had a very large charitable contribution for the Haiti effort, which was around $200,000, and we had a much lower bad debt expense of around $300,000. If you tally up those three items it's a $1.2 million variance in G&A. So nothing to do with classification, and most of it is SEF related, and it's in the G&A side really the one-time event on the sales tax reimbursement claim.

Hugh Miller - *Sidoti - Analyst*

Okay. And Kelley had kind of alluded to expectations for a steeply sloped yield curve for the next call it I think he said three to four quarters. When you look out beyond that and the potential for some pressure on the average variable fee capture, if we do start to see some contraction in the yield curve, I guess when you take a look at the value add that you provide to clients on both the best executions and also time, efficiency and so forth, how do you view your ability to potentially I guess maybe raise some pricing to offset that and whether or not that is an area that you could potentially look to if we come under a scenario where there's some pressure on the yield curve.

Rick McVey - *MarketAxess Holdings Inc. - CEO & Chairman*

I think we feel like we have a very fair fee model across the board right now, Hugh, so that doesn't really enter into our thinking currently. What we do think offsets it are really two main areas. One is continuing to gain share in our core markets, most notably

US high grade. But also a lot of enthusiasm here about what's going on in the Other product category and the growth that keeps coming there. And it's been very powerful for our shareholders, because it's growth in both volume and it's attractive, high-quality business in the two areas that Kelley mentioned earlier, high yield and EM. And when you add to that the possibility that CDS trading could be in a very different place over those same three to four quarters, we think we have plenty of growth opportunities across the board without really thinking about any significant changes to our fee models.

Unidentified Company Representative

Hugh, and the only other thing I would add is that if you presuppose -- and, again, we're not forecasters of either absolute rates or yield curves -- but obviously if there was a slightly flatter yield curve presupposing higher short-term rate that a large segment of our client population that historically has been very active with us and where we've had a very high share, i.e. the corporate cash accounts, have been relatively dormant, so, as Rick said, we have the capability, although be it at a slightly lower fee capture, to grow share in that sort of client base that has been relatively dormant as fees -- as rates are effectively as close to zero as they can be. And, again, as Rick mentioned, in the Other categories, because it is a different fee plan, it is not a markup but rather it is a dealer fee, that is unaffected by duration traded over the platform. As a result, it really is the diversification of our business away from high grade in higher fee capture businesses that really is part of the two-pronged process, which is get deeper in share in high grade and get broader and more diversified in agencies, high yield and EM.

Hugh Miller - *Sidoti - Analyst*

Okay. Great color there. And I guess the last question I had was just with regards to Mr. Trudeau's decision to kind of not stand for reelection on the Board, and I was wondering what your view was on the potential I guess impact to the Company there and kind of what his contribution has been over the last few years. Any thoughts there would be great.

Rick McVey - *MarketAxess Holdings Inc. - CEO & Chairman*

Yes, no, happy to comment on that. As you know, Hugh, Bob and TCV became much larger partners of MarketAxess in the midst of the credit crisis back in '08. Bob's been a terrific Board member. TCV's been a great partner. They're still significant shareholders, and we will be in close communication with them going forward. I think this just reflects the normal cycle. They had a specific purpose when they came into MarketAxess during the crisis, and a mission. A lot of that mission has been fulfilled. Very comfortable with the way the business is going, and much like other private equity firms I think they're on and off boards with some great regularity. So we're very appreciative of the contribution Bob made in terms of helping us to reshape the business strategy through the credit crisis and we expect to be closely involved with them for a long time to come.

Hugh Miller - *Sidoti - Analyst*

Okay. Thank you very much.

Operator

Your next question is a follow-up from the line of Patrick, with Raymond James. Please proceed.

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

Hey, guys, just a follow-up on the question of if the yield curve does flatten then what could happen to pricing. Can you kind of give some sort of sensitivity? So, if we did see that flattening, where could high grade fee capture go to from the current 172?

THOMSON REUTERS

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Patrick, it's Tony. When we look at fee capture, and it might be easier to even break down the fee capture within high grade. We do provide some clarity in our public documents on our fixed rate fee capture within high grade compared to our floating rate fee capture. And if you look at the range of our fee capture for fixed rate, and let's go back over the past four years, it's ranged from roughly $90 up to $160. And that range excludes the execution fee from our regional dealer plan. So you think about $90 was at a point in time where the yield curve was flat or inverted and think about $160 again ex the execution fees was at a time when the yield curve, the spread between the 10-year and the three-month was around 3.5% or 3.6%. So I just gave you a broad range of the possible fee capture within our fixed-rate product. So you can do some extrapolation within that and determine what the sensitivity would be at different levels of spreads, then.

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

Got you. That's helpful. Thank you.

Operator

Your next question comes from the line of Daniel Harris, with Goldman Sachs. Please proceed.

Daniel Harris - *Goldman Sachs - Analyst*

Hey, good morning, guys.

Unidentified Company Representative

Hi, Dan.

Unidentified Company Representative

Hi, Dan.

Daniel Harris - *Goldman Sachs - Analyst*

Hey, I think you -- I might've missed it, but on the fixed distribution fees for the US high grade, pretty big ramp there both sequentially and year over year. Where are you seeing most of the growth there, and can those continue to grow?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Dan, it's Tony. On the distribution fees year over year, it is almost 100% driven by the migration of several dealers from the regional plan up to the major plan. So we had several dealers migrate up in the second half of 2010. We had one additional dealer migrate up in January. But as we look out over the near term and let's say over the next two or three quarters we don't see much movement in that distribution fee line item. There's a couple of dealers on the regional plan who continue to ramp up their participation, but at least in the near term we don't see anybody migrating up, so that line item, distribution fee line item should be relatively stable.

THOMSON REUTERS

Daniel Harris - *Goldman Sachs - Analyst*

Okay. And even in the sequential move, Tony, from 10 to almost 12, that was -- largely went to that one change?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Correct. Yes.

Daniel Harris - *Goldman Sachs - Analyst*

Okay. Perfect. On CDS, as you guys think about the SEF trading, how do you think about the pricing model? How will that harmonize with the current model you have for the corporate bonds?

Rick McVey - *MarketAxess Holdings Inc. - CEO & Chairman*

It remains to be seen, Dan, but I think as we've said in the past when you look at a bid offer in the indexed products those are very tight markets, and we would expect pricing to reflect something closer to normal e-trading pricing models in the rates areas. And I think when you look at single name pricing the bid offer falls somewhere in between the index levels in typical corporate bond bid offer. And there is a direct correlation between bid offer and e-trading fees per million. So I think we view those two as having different pricing models. But it's early days, and we and others are thinking competitively about how to position our product, and I think that will evolve over the next four quarters along with the regulatory changes.

Daniel Harris - *Goldman Sachs - Analyst*

And, Rick, in your conversations with clients, how much of the discussions center around what they want from the product, how they want it to look, whether it's a CLOB or an RFQ, and how much is it related to, given how much this market is changing for them, their sensitivity around pricing?

Rick McVey - *MarketAxess Holdings Inc. - CEO & Chairman*

I think it's mostly around trading protocols right now, and I think what you see from institutional market participants, both buy side and sell side, is the feeling that the client to dealer market structure works for them and is likely to persist in OTC derivatives. We are seeing an evolution of electronic market-making capabilities, especially around the index products, which is why we've built the streaming trading protocols into the system that more and more dealers will be connecting to this quarter.

So there's a bit of a hybrid between a traditional RFQ or auction style and a central limit order book that's evolving in the index space. And you could see that change over time, but I think right now this is very likely to stay in a client to multidealer structure in the OTC derivative areas. Single name we see mostly demand for traditional RFQ trading protocols.

So I would also say one other thing, Dan, that I think clients are equally focused on post trade efficiency. This is all very new for them in terms of getting set up with margining and central clearing, and we think we're doing all the right things there with post trade APIs into the affirmation hubs and the clearinghouses to make trading electronically efficient for our clients.

Daniel Harris - *Goldman Sachs - Analyst*

Okay, that's very helpful. And then, just lastly, maybe this is almost more of a black and white, as you're interacting with both your dealer and user clients, where is more of the pull coming from? Is it the end users are really interested in moving this further along, or are the dealers, knowing full well that these changes are coming, more interested in moving the CDS electronic trading along?

Rick McVey - *MarketAxess Holdings Inc. - CEO & Chairman*

No surprise, and I think you would agree with this, the primary pull is coming from Washington. I think the regulatory changes are driving most of this. And we're very involved in providing input to the regulators as they shape the final rules, but I think the buy side and the sell side are both reacting to the proposals that are coming from both the CFTC and the SEC.

Daniel Harris - *Goldman Sachs - Analyst*

Okay. Thanks a lot, Rick.

Operator

(Operator instructions.)

I have no further questions in the queue. I would now like to turn the call over to Rick McVey for closing remarks.

Rick McVey - *MarketAxess Holdings Inc. - CEO & Chairman*

Thanks very much for joining us this morning, and we look forward to talking to you again next quarter.

Operator

This concludes the presentation. You may all now disconnect. Good day.
