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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded Wednesday, October 26, 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 third-quarter 2011 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 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 result 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 and Chairman of the Board*

Good morning, and thank you for joining us to discuss our third-quarter 2011 results.

We are pleased to report a 10th consecutive quarter of record revenues, pretax income, and operating margin. Revenue of $46.6 million was up 25% from a year ago and pretax income of $22.3 million was 65% above the third-quarter of 2010. Diluted EPS improved to $0.34 compared to $0.22 one year ago.

Total trading volume was $132 billion, up 31% from a year ago. Our estimated US high-grade market share increased to 11.6% during the third quarter and was especially satisfying given the shift in market conditions throughout the quarter. The market share gains were driven entirely by an increase in investor order flow during the quarter. Volume growth and strong fee capture per million traded resulted in another record quarter for variable transaction fees.

Slide 4 displays some details on our financial strength. Strong revenue growth coupled with expense discipline is driving record levels of earnings. EBITDA was up 60% to a new record of $24.1 million.

Operating and EBITDA margins reached new highs during the quarter at 48% and 52%, respectively. Our cash and securities balance at September month end was $238 million or $5.97 per diluted share, up $55 million in the past 12 months.

The Board of Directors approved a regular quarterly cash dividend of $0.09 per share and authorized a $35 million share repurchase program. The primary purchase of the buyback is to offset shareholder dilution from the employee stock compensation plans.

Slide 5 provides an update on market conditions. Credit market conditions became less favorable during the quarter following a two-year period of generally favorable conditions. European sovereign debt concerns and weakness in the financial sector led to an increase in credit spreads and credit spread volatility. The treasury yield curve flattened during the quarter. Primary dealer balance sheets for corporate bond market making have declined by over 40% in the past four months and are now at credit crisis lows of around $55 billion. Taxable bond and ETF flows remain positive, totaling approximately $24 billion for the quarter, but were well below recent quarterly levels.

Despite these obvious headwinds, US high-grade TRACE volumes were $709 billion in the third quarter, in line with the average quarterly pace of the last few years. We continue to believe that current levels of TRACE volumes are sustainable and are supported by the increase in overall corporate debt outstanding.

Slide 6 highlights our improved client and dealer participation. Our decision to expand the dealer liquidity group during the crisis has led to a significant expansion in trading relationships. This vast trading network is helping to offset the reduction in primary dealer balance sheets and is driving meaningful transaction cost savings to investors. The decline in hit rates or percentage of orders resulting in a trade reflects the more challenging market environment.

Importantly, though, we have seen an increase in investor order flow with inquiry count up 27% in the third quarter. New dealers added to the system since the third quarter of 2008 accounted for a record of approximately 29% of the trading by count and 20% of trading by volume during the third quarter.

With four trading days remaining, October month-to-date activity shows US high-grade market share running below third-quarter levels. We have seen rapid improvement in investor sentiment over the last few weeks, creating demand for corporate bonds with dealer balance sheets at all time lows. As a result, we believe there is a short-term imbalance between supply and demand in the market. History leads us to believe this will normalize.

Slide 7 summarizes the trading volume across our product categories. Consistent with our first-half trends, overall global volume in the third quarter was up 31% year over year to $132 billion. US high-grade volume was $82 billion, up 36% year over year.

Our market share increase to 11.6% in the current quarter was the primary driver of the volume gains as TRACE volumes were down 2% from year-ago levels.

Eurobond volumes were down 29% from the third quarter of last year. Difficult market conditions combined with a more competitive environment continue to impact our Eurobond trading volumes. In spite of the weakness in Eurobond volumes, US high-grade and emerging-market trading volume transacted by European clients has increased by over 40% on a year-to-date basis.

The other product category volume increased to $42 billion, up 43% from a year ago, driven principally by agency and emerging-market volume growth.

Local emerging markets expansion is one of our targeted investment areas. As an example, we recently received regulatory approval in Brazil to trade local market Brazilian government and corporate debt.

We are also continuing to invest in our CDS trading functionality. In addition to our existing request for quote protocol, we now have six dealers streaming executable CDS prices and more on the way.

We have also enhanced our post-trade functionality for trade affirmation as well as connectivity to the clearinghouses. In spite of the regulatory delays, we continue to see a significant opportunity in electronic trading for swaps.

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

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Thank you, Rick. Please turn to slide 8 for our earnings performance.

Revenues of $46.6 million were up 25% from a year ago, driven principally by trading commission growth. Total expenses were $24.3 million, up 2% from the third quarter of 2010 and down 6% sequentially from the second quarter. Third-quarter expenses reflect a modification to our incentive bonus accrual, which I will cover momentarily.

Pretax income was a record $22.3 million in the third quarter, up almost 65% from last year. Our 2011 year-to-date incremental margins were 83%. This means for each additional revenue dollar generated, approximately $0.83 fell to the operating income line.

The incremental margin rate is higher than our historical five-year trend and reinforces our ability to deliver healthy margins on the heels of revenue growth.

Our effective tax rate for both the third quarter and year to date was right around 39.7%. We expect our full-year tax rate to be in line with our prior 2011 guidance of 38% to 41%.

Our diluted earnings per share was a record $0.34 on a diluted share count of 39.8 million shares. The diluted share count has increased over the past year due principally to the impact our rising share price has on the diluted share calculation and additional employee equity grants.

On slide 9, we have laid out our commission revenue trading volumes and fees per million. Distribution fees were $16.2 million during the third quarter of 2011, up 32% from the third quarter of 2010.

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Six dealers have migrated from the variable regional plan to the major plan in the past year, including two during the third quarter. We expect two additional dealers to move to the major plan in the fourth quarter. Compared to the third-quarter level, distribution fees are projected to be approximately $1.2 million higher in the fourth quarter.

US high-grade fees per million increased from $184 in the second quarter of 2011 to $189 in the third quarter. All else equal, dealer migrations to the major plan result in a decrease in variable transaction fees and fees per million and an increase in distribution fees. In the third quarter, the impact of the dealer movement was more than offset by an extension in the average years to maturity of bonds traded.

The other product category fee capture decreased modestly from $182 per million in the second quarter of 2011 to $175 in the third quarter. The sequential and year-over-year declines in fees per million was due to a volume mix shift in favor of agency bonds.

Slide 10 provides you with the expense detail. Total expenses for the third quarter were up 2% from a year ago and down 6% sequentially compared to the second quarter of 2011. Declines in employee compensation costs and professional and consulting fees accounted for the sequential drop.

During the third quarter, our Compensation Committee modified the 2011 cash incentive bonus methodology to reflect lower than expected staffing levels and higher than expected operating income. Without this adjustment, employee compensation costs would have been approximately $1.9 million higher during the quarter. Our bonus accrual for the first nine months of 2011 is approximately 18% higher than 2010.

During the quarter, in response to regulatory delays, we also slowed certain SEF-related spending, resulting in a drop in professional and consulting fees.

We previously guided that our full-year 2011 expenses would be at the high end of a range from $101 million to $107 million. Due principally to the modification in the incentive bonus accrual methodology and lower than expected staffing levels, we now expect that full-year 2011 expenses will be at the lower end of this range.

With regard to staffing levels, we are currently operating without a president, and we have delayed our SEF compliance hires pending rule finalization.

Software development activities related to new products, especially CDS enhancements, were robust during the third quarter. And we now expect full-year 2011 capital [ex-]spending to be in the range of $7 million to $8 million.

On slide 11, we provide balance sheet information. Cash, cash equivalents and securities as of September 30 were $238 million compared to $198 million at year end 2010.

Our 12-month trailing free cash flow was $63 million, and was more than sufficient to cover our recurring quarterly cash dividend and other capital needs during the period. The current dividend rate represents a payout of approximately 22% of the trailing 12-month free cash flow.

As a reminder, we believe that available unrestricted federal tax loss and credit carry forwards have now been exhausted. As such, we expect an increase in cash paid for income taxes in 2011 and subsequent years.

As Rick mentioned, our board approved a $35 million share repurchase plan. While the plan was principally established to offset the increase in our diluted share count over the past year, we do expect the repurchases to be accretive.

There was no change in our capital structure during the third quarter and we continue to have no bank debt.

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

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Thank you, Tony. We are pleased with the third-quarter numbers we reported this morning. Our management team and employees continue to do a great job building innovative technology solutions and attracting additional clients to our trading network. Our strong revenue momentum is allowing us to simultaneously invest in new product capabilities and drive significant earnings momentum for our shareholders. We are encouraged and motivated by the number of new opportunities we see ahead of us for electronic trading in fixed income markets.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Niamh Alexander, KBW.

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

Thanks for taking my questions. And congrats on the quarter. You're kicking off the buyback again. We see $35 million buyback program. So we are glad to see kind of you distributing some of the excess cash. I guess my question is why not more? I know you want to keep good capital levels for the staff expansion and what, but we think you could still do a little bit more than this.

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

It's Tony. On the size of the buyback, we did debate the overall size of the buyback, and given what our mission is here to offset the increase in the diluted share count, there was some parity with the 1 million-plus share increase over the past year, and the overall level. The buyback level also, with the $35 million, it still leaves us unlevered and provides some flexibility in the event we decide to accelerate our investments or if an M&A falls -- comes along, so we did consider the level of the buyback.

At the same time, we do have the dividend in place at the same time. We did revisit the dividend level. We just increased it in the first quarter. The board will take that up again in the first quarter of next year. So we are returning capital in the form of the dividend and the repurchase and are comfortable with the level right now.

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

Okay, fair enough. Thanks, Tony. And then if I could stick with the questions for you, Tony, on the compensation expense, I'm just trying to get to a good run rate because it seems like lowering -- you're very helpful; you gave us a true-up to kind of say it was an adjustment for lower staff and based on bonus accrual and then we expect it to really to kind of Kelly's departure. But we would interpret that as kind of a good run rate rather than the kind of true-up to a higher level via run rate. Is that fair to think of this as kind of being a more normal run rate for now?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Yes, on the run rate, the way I'm looking at it right now, it's probably around $26 million per quarter overall run rate for expenses. And we talked about guiding toward the lower end of that $101 million to $107 million guidance range. It feels right now like

$101 million to $103 million, so somewhere in there for the full year. And that would get you to around $26 million for the fourth quarter. So that's what the normalized run rate feels like right now.

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

Okay, fair enough. Thanks, Tony. And then Rick, if I may, with your client conversations -- and thanks for the color on the call about how we're seeing dealer balance sheet strength, especially their positions in these products, but still you've managed to grow your business and take share. If we are on the precipice of another kind of round of deleveraging and maybe just continued compression from dealers' kind of willingness to participate, do you think that you're still in a good position to grow? Or at some point does it kind of start to impact the growth potential?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Well, we feel very good about the sustainability of the market share trends that we have been seeing. Obviously, the increased risk during the third quarter caused dealers to de-lever balance sheets further. And primary dealer balance sheets, as you point out, are back down to the lows of the crisis.

It's kind of interesting. We have seen an unexpected reversal in investor sentiment during the month of October, and credit spreads have actually rallied quite a bit over the first three weeks of the month. And in fact, most indices are in about 30 basis points during that three-week period. So the sentiment has actually improved quite a bit. There's plenty of cash to be put to work.

The balance sheets were low as I mentioned during this rally, and the new issue calendar has been pretty quiet. But just in the last few days, we have seen a pickup of new issue activity and we expect that to normalize trading activity in the market.

And, yes, everything we see is that investors are continuing to demand new and alternative sources of liquidity, and using technology to meet those goals is a priority for them. And we are pleased to see not only the increase in share again during the third quarter, but the fact that the business continues to get distributed more broadly to all of the dealers on the trading system. We think that all of this is very favorable for a continuation of the trend on market share gains.

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

Okay, thanks, Rick. I appreciate the color. I'll get back in line.

Operator

Daniel Harris, Goldman Sachs.

Daniel Harris - *Goldman Sachs - Analyst*

Good afternoon. How are you? So Rick, I will take this opportunity to sort of ask you for what you are hearing down in Washington and when you speak to different market participants about SEFs, how are you seeing that continue to shake out in terms of what people are looking for? Obviously, I think most of the people that we speak to think the rule set will be in place by early next year at some point with participation maybe towards the end of the year. What do you think those rules start to look more and more like over the past quarter versus what you thought last -- three months ago?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

We haven't seen any significant change in the expected rule proposals over the past three months. I think it's increasingly likely that we are going to end up with two different sets of rules, one from the CFTC and one from the SEC. No current sign that those rules are converging. But we continue to believe that the main themes are in place, that the regulators would like to see the majority of swaps centrally cleared.

If swaps are eligible for central clearing, they will be required to be traded on an exchange or a SEF. And we will end up with a real-time trade tape and real-time transparency in the swap market.

So I don't think anything in the last three months has really changed in terms of our expectation of what the rules will look like.

It looks obviously like the SEF rules have been pushed into the first quarter. And that would fuel our current expectation that dealers and hedge funds are likely to be required to comply with the new rules around midyear to third quarter of next year and investment managers in all likelihood toward the end of next year.

Daniel Harris - *Goldman Sachs - Analyst*

Thanks for that color.

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

I do think, Dan -- and you're on top of this as well -- there are a couple of hot topics now. The five-dealer minimum requirement is one of them. Clarifying the 15-second rule is another. Where they set the threshold around block trading exemption. So there are a number of key points still to be outlined, but nothing has really changed or been clarified over the last three months.

Daniel Harris - *Goldman Sachs - Analyst*

Okay. One of the things you mentioned was about a central tape for swaps. Do you see an opportunity similar to what you have with BondTicker to have a real robust offering that becomes the industry standard for delivering that data out to the marketplace?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

We do. And we also think that the implementation of the [traits] tape back in 2002 serve as a catalyst for greater electronic trading. I think once prices are made publicly available, people become a lot more comfortable with electronic trading.

And, yes, we fully intend to be a redistributor of any trade tape that emerges in the swap market and have it fully integrated with the trading system and all of our bond information. So we continue to believe that the strategy needs to be three-pronged here, providing market-leading free-trade price discovery, market-leading execution engines and straight through processing post-trade, and we expect to repeat that pattern for swaps.

Daniel Harris - *Goldman Sachs - Analyst*

Okay, great. And just shifting, lastly for me, the Eurobonds obviously continue to be an area of weakness not just for you obviously, but just for the industry. There doesn't seem to be a lot of activity. If you had a role play out going forward, how do you see -- not necessarily the European sovereign debt issues being fixed -- but just generally for the business of trading European debt, how do you think that goes over the next one to two years?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

I think in the end, the trends in Europe are going to be very similar to the US. I think over time, the market has to open up and allow new sources of capital and new sources of liquidity to form to trade secondary OTC markets. And it has been slow going so far in Europe and we are struck by how different the electronic market is there than it is currently in the US. But the same sort of macro trends are at work with respect to pressure on dealer balance sheets and the need for alternative sources of liquidity and regulatory interest in continuing to promote open trading on electronic venues. So I think our view is that if we look out two, three, four years, we will see many of the same trends in place in Europe even though it's not terribly obvious right now.

Daniel Harris - *Goldman Sachs - Analyst*

Thanks, Rick. I really appreciate that color.

Operator

Hugh Miller, Sidoti.

Hugh Miller - *Sidoti & Company - Analyst*

Good morning. I just wanted to double check and catch your commentary with regards to market share expectations for October. I believe that you mentioned that they would -- anticipate that they would be below the third-quarter average. Is that correct?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

That's what I mentioned in the prepared remarks. We obviously still have four important trading days left in the month. And we don't know what the final TRACE number will look like, so we're working with an estimate on large trade side, and we will be until the middle of next week.

But as I mentioned, we saw such a sudden and unexpected shift in market sentiments with a significant increase in demand for corporate bonds without any dealer inventory on their balance sheets, and it did create an imbalance in the market. And month to date, it has had an impact on our share.

Hugh Miller - *Sidoti & Company - Analyst*

Okay, okay. And I guess in September, we kind of saw a shift in the percentage of sub $5 million bonds traded, which was increasing. And I haven't seen anything so far about October, but I was wondering if you guys have noticed anything with that, if we've seen kind of that trend reverse and head back to normalized levels? Or are we still seeing kind of a greater percentage of trading activity in the sub $5 million category?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Hugh, it's Tony. We haven't finished all the work around trade size. Certainly that trend did exist and did appear in September, but I can't say we've had great visibility so far in October, at least nothing noticeable.

Hugh Miller - *Sidoti & Company - Analyst*

Right, okay.

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

And Hugh, we did look at some other statistics on the percentage of interdealer traits month over month and quarter over quarter. And nothing is appearing there that there is more or less interdealer trading going on as a percentage of TRACE.

Hugh Miller - *Sidoti & Company - Analyst*

Okay, okay. I appreciate that. And then on the slides, you guys -- I think on slide 6, you look at the cumulative approvals on the platform and obviously they continue to trend higher. I was wondering if I could get a sense of -- if that's driven more by additional institutions coming onto the platform and signing up, or are we seeing kind of the number of approvals per institution that are rising because of the lack of larger dealer market making?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

I think it's more of the latter. We've talked over the last several years, Hugh, about the time it takes for new dealers on the system to get to critical mass in terms of client approvals. And each quarter that is marching along, so as we bring new dealers onto the system, it will frequently take them four to six quarters to really get a significant number of the MarketAxess investors signed up for trading. And that's what's driving most of the increase. But I do think it reflects the interest and demand that investors have for alternative sources of liquidity that they continue to sign up to trade with more dealers.

Hugh Miller - *Sidoti & Company - Analyst*

And do you happen to have any data points handy with regards to the historical trend on the dealers per institution and where they kind of stand?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Hugh, I don't have those data points handy. I will tell you, though, in the last four or five quarters, that total dealer count has stayed steady at around 80. And the number of approvals per dealer has been in that 300 to 400 per dealer, but I don't have the exact numbers on that.

Hugh Miller - *Sidoti & Company - Analyst*

Okay, maybe I can circle around. That's fine.

And the last question I had was just with regards to the CDS opportunity here. And just given the strength of the corporate bond new issuance since the recession, just wanted to get your thoughts as to why we kind of haven't seen any meaningful improvement in rebound in CDS trading activity -- just your thoughts there as we move forward.

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Yes, I think that the uncertainty around the regulations has something to do with that, with respect to market participants not being exactly certain how the rules are going to shake out over the coming quarters.

I also think that the -- when you look at current CDS activity relative to the way the market operated three years ago, the lack of a structured product calendar has a lot to do with it. A significant amount of CDS trading activity in the past was generated from the very active levels of new issuance in trading and structured products that really doesn't exist today. So I think both of those factors are at work.

Hugh Miller - *Sidoti & Company - Analyst*

Okay. And one actually last question with regards to the SEF compliance hires that you guys talked about pausing -- and you have mentioned at this point your best expectation or guess at finalization of rules and implementation. How should we be then thinking about that, assuming that goes according to plan on when you guys would then likely start to go out there and add that additional cost later on with the SEF hires?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Hugh, with what we're working off of right now on a revised timetable, we're looking toward the end of the first quarter. So I can't say we would expect much in the way of hiring in the next three or four months, but certainly, by the end of the first quarter, we would have some of those hires in place and then continue to build out the compliance and surveillance team, so that we are positioned by the end of the second quarter to be fully staffed up.

Hugh Miller - *Sidoti & Company - Analyst*

Great. Thank you.

Operator

Howard Chen, Credit Suisse.

Howard Chen - *Credit Suisse - Analyst*

Good morning, everyone. Congrats on a strong quarter. Rick, I had a follow-up on the new dealers and improving hit rates from here. Do you think of building share from current levels as a function of doing more of the same, or are there specific next steps and new functionalities that we should all be aware of and keeping an eye on over the coming quarters and year?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

In the near term, I think it's more of the same. I think the investor experience has improved significantly over the last three years and the price of execution differential is growing relative to their alternatives on the phone, and that is driving more investor order flow in the system.

Having said that, as liquidity continues to get more challenging, investors are anxious to revisit some of the ideas that we pushed forward back in 2008 during the credit crisis where we do have ways to allow investors to open up their order flow even more broadly on the trading system.

And our belief is that the majority of business in the credit markets will continue to get done between clients and dealers, but at the margin, there may be opportunities on our order book to revisit some of those ideas and some of the functionality that we have offered in the past, so that orders can be shared even more broadly across the trading network.

Howard Chen - *Credit Suisse - Analyst*

Great, thanks.

And then separately, Rick, was just hoping to get your thoughts on the current Volcker Rule proposal that is out there and your level of concern that we see intended consequences on overall liquidity in the markets you all participate in and that potentially offsets any benefits that you may see.

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Yes, it's an important question. Thanks for that. You know I think it's difficult to decipher exactly where to draw the line between market making and proprietary trading, but our current read, Howard, and you guys are spending a lot of time focusing on this as well is -- our current read on corporate bond trading or credit trading in general is the language that says as long as it is conducted in the normal course of market making with clients, then it is considered to be market making, not proprietary trading.

It is a thin line because dealers do buy and sell corporate bonds with their clients all day long, and most of those bonds are held on their books for anywhere from two hours to two months. So it's a different market because of the fragmentation and the lack of liquidity in the market. But our read currently is that the market making that dealers do today in corporate bonds will be permissible under the Volcker Rule.

Howard Chen - *Credit Suisse - Analyst*

Makes sense. Thanks, Rick.

And then finally just one on long-term strategy. As you say, the franchise has a lot of momentum. You see a strong opportunity set ahead. Just curious how you and the board way potentially exploring a strategic sale today rather than further executing and finishing off that plan that you are laying out? Thanks.

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Sure. You know, I think we are going through that exercise exactly as you would expect. We are incredibly enthusiastic about the organic growth that we have been experiencing and the possibility to continue to execute organically and drive great returns to our shareholders. So there is a high threshold mark for changing that plan.

And I think our board is very confident that the market structure changes are working in our favor, that it's likely that the market share traded electronically will continue to grow. And as a result, I think our view is that the best thing that we have been doing for our shareholders is to continue to execute. And that's where the majority of the mindset is around the board table today.

It's not to say that interests may not emerge from others from time to time. We think our growth and the attractiveness of the fixed income space does attract interest from elsewhere, but I think there's a very quantitative and thoughtful approach about what we can accomplish organically versus where others might view the value of the franchise at any given time.

Howard Chen - *Credit Suisse - Analyst*

Very helpful. Thanks, Rick. I had to ask.

Operator

Patrick O'Shaughnessy, Raymond James.

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

I was hoping you could just kind of go into a little bit more detail about the October market share trends that you were speaking about earlier. Help me understand the supply demand mismatch between the buy side and the sell side, and what the implications are of that on your market share. So if the buy side wants liquidity and the dealers don't want to provide it, is it basically a story where people have to get on the phone in order to make these trades happen?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Yes, you know, in the medium to long term, the improvement in investor sentiment is clearly a good thing for us. But for a few weeks, Patrick -- and I don't think any of us want to overemphasize a few weeks -- we saw a significant reversal in investor sentiment and quite a whipsaw with respect to credit spreads. So, people have gotten defensive through the third quarter. Spreads were widening.

If you look at the credit LUCI index, we were somewhere around 215, 220 over treasuries at the end of the quarter. Markets started to improve. Some of the economic numbers were much better. Cash was building up with investors and all of a sudden, we saw a massive wave toward investors looking for offers wanted with dealers that don't have any inventory. And we were in the middle of earnings season, so there was not a very big new issue calendar.

So for a couple weeks there, there was an imbalance. We saw a big reversal on our system toward offers wanted versus bids wanted.

As I mentioned earlier, we are highly confident that that normalizes. And even in the last few days you saw the new issue calendar start heating up. And our view is that the improvement in sentiment is a positive not a negative for us.

But yes, as investors are unsuccessful sourcing bonds from the street, in the very short term, it does become an order driven market, and we suspect that that's a little bit of what happened just over the last few weeks.

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

To what extent has your broadening out of your dealer base helped offset that? Because certainly that was kind of the issue that you guys faced during the credit crisis before, and one of the ways that you are able to try to minimize the impact is [broaden out] so people aren't dependent upon a narrow dealer base but they had a lot more folks that they can go to. Have you seen your clients instead of maybe going just with a list of 8 or 10 preferred dealers, maybe extending out to 20 or 30 dealers to get their liquidity?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Absolutely, we have. And I think it's interesting during a quarter when the dealer -- the primary dealer balance sheets were declining, we set a record in terms of high-grade market share and a record in terms of the percentage of trades and volume conducted by our new dealers. So there is no question, Patrick, that that strategy to increase our dealer participants and our sources of liquidity has not only improved our market share, but significantly improved the investor experience on the trading system.

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

Okay. That's helpful.

Turning to pricing, Tony, you spoke about how the high-grade pricing was a little bit better this quarter because of extension of average years to trading. Just based off of the trends that you are seeing with the yield curve and customer demand, as we entered in the fourth quarter, does it look like folks are still staying out pretty far in the yield curve, or is it pretty influx at the moment?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Patrick, on the yield curve in the years to maturity, at least thus far in October, there really has not been a noticeable change. And even that change from the second quarter to the third quarter, it was fairly sizable. It was almost one year in extension,? But still, within that context, looking back over the last 15 quarters, the average years to maturity has been right between eight years and 9.5 years. So it's still within that range. We haven't seen anything drift one way or another so far in Q4.

I think the thing - when you are looking at your modeling now for Q4 and beyond, one thing to consider is we do have a couple of additional dealers migrating up from the regional plan to the major plan in the fourth quarter, so that's one thing that you may want to think about.

And what that means for us, if all else equal with similar years to maturity, similar volume levels, for each dealer that moves, it could move that fee per million number downwards by somewhere between $8 and $10 for each dealer. So that's just one thing to keep in mind outside of the years to maturity.

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

Okay. And I believe you said that you have probably two dealers moving to your major dealer status in the fourth quarter, so that implies maybe a $16 to $20 drop, all else equal in your fee capture per million?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

That's correct, Patrick. And in this case, unlike the third quarter where those migrations happened midstream in the quarter, in this case the two dealer movements will happen at the beginning of the quarter. So using that benchmark of $8 or $10 per million per quarter, that gets you to around $15 or $16.

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

All right. Very good. I appreciate it.

Operator

I will now turn the call over to Rick McVey for closing remarks.

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

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

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.