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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. (Operator Instructions). As a reminder, this conference call is being recorded July 23, 2014.

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

Dave Cresci - *MarketAxess Holdings Inc - IR Manager*

Good morning and welcome to the MarketAxess second-quarter 2014 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 beliefs regarding future events that, by their nature, are uncertain. The Company's actual results and financial condition may differ materially from what is indicated in those forward-looking statements.

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

Now let me turn the call over to Rick.

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

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

We are pleased to report record revenues this quarter of $65 million in spite of the soft secondary trading conditions in fixed income throughout the quarter. Our momentum is evident in both emerging market and high yield trading where we set new quarterly volume records and in Europe where our client volumes were up 28%.

As a reminder, secondary market conditions in the second quarter last year were very different on the back of the Feds tapering announcement leading to rising interest rates, higher volatility and wider credit spreads. In retrospect, last year's second quarter was an anomaly in the multi-year trading environment trends.

Pretax income in the quarter just completed was down 2.5% to $29.1 million and diluted EPS was $0.48 compared to $0.49 in the second quarter of 2013. Expenses were up 6.6% to $35.9 million. These year-over-year comparisons exclude the benefit of the out-of-period adjustment last year for the capitalization of certain software-related expenses.

Our adjusted estimated share of US high-grade trades in Q2 was 14%. TRACE reported volumes showing increase on or around April 1 of double reported transactions versus prior years. Based on our own TRACE analysis and conversations with FINRA and several large dealers, we believe this double reporting had the effect of increasing TRACE-reported volume by approximately 3% versus prior periods. Our market share adjustment reduces TRACE volume by 3% to eliminate this double counting and make more accurate comparisons to prior periods.

Due to our strong cash flow and excess cash position, our Board approved an increase in our share repurchase program from $35 million to $100 million and a regular quarterly dividend of $0.16 per share. We believe that share repurchases will continue to improve long-term returns for our shareholders.

Slide 4 provides an update on market conditions. Market conditions during the quarter remained largely consistent with the first quarter of 2014. Combined US high-grade and high-yield TRACE volumes were comparable to both the prior year and previous quarter levels, while credit spreads remain near all-time lows. Credit spread volatility also remains low, reducing the need for active portfolio turnover in the secondary markets.

The quarter saw continued robust US high-grade new issuance of 20% compared to the second quarter of last year. The US corporate debt market continues to get larger and is approaching a record $10 trillion. Corporate debt outstanding is up more than 50% since the end of 2008.

We have observed a positive correlation between high-grade new issuance and the percentage of TRACE volume represented by block trades. In the short-term, investor focus on new issues and higher block trading volumes have a dampening effect on our estimated market share. Access demand for corporate bond is evident in the current low level of credit spreads and in the low hit rates for offer one of business on the MarketAxess trading system. We believe that more balanced order flow would improve overall hit rates.

Slide 5 provides an update on our key areas of investment. Open Trading creates all to all trading connections on the network and continues to be a major area of focus for the Company. During the quarter, the number of active clients utilizing Open Trading protocols grew from approximately 175 firms to 260 firms. While open trade still accounts for a relatively small portion of our overall trading volumes, we are encouraged by the roughly 35% increase in prices back and trades completed in Q2 versus the first quarter.

We are seeing increased Open Trading adoption from both dealer and investor clients, and we are confident that we are on the right track to build valuable new sources of liquidity for secondary credit markets.

We see continued improvement in our European business. Trading volumes from European clients were up 28% during the second quarter, and European revenues were 20% of total Company revenues. We are working on a number of enhancements to our Trax reporting, matching and data services in response to new incoming European regulations. Our Trax technology rebuild is on schedule for completion this year.

In CDS, we did see an increase in our CDS SEF volumes and market share during Q2. Important regulatory questions remain on CFTC rule interpretation and SEC rules for CDS single name trading. In the short term, aggregate CDS SEF volumes are lower than we expected and regulatory costs to operate SEFs are far greater than current SEF revenues.

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

Tony DeLise *- MarketAxess Holdings Inc - CFO*

Thank you, Rick. Please turn to slide 6 for a summary of our trading volume across product categories. Our overall global trading volumes were within 1% of the record volume reported one year ago. US high-grade volumes were $116 billion for the quarter, down roughly 2% year over year. Adjusted estimated high-grade market share of 14% is largely flat with last year's 14.1%.

Volumes in the other credit category were up 11% compared to the second quarter of 2013, led by record quarterly volumes in both high-yield bonds and emerging market debt. Our reported liquid products trading volumes were down 25%, largely due to the 37% decline in TRACE reported agency bonds volume.

Beginning June 30, FINRA initiated reporting of 144A securities. Based on conversations with FINRA and July month-to-date activity we believe that 144A securities could add 10% to 15% to high-grade TRACE volumes and more than 50% to high-yield TRACE volumes.

FINRA has not yet made available any historical data, so we don't have the ability today to accurately recap our historical high-grade market share. Share will go down with the 144 inclusion, but we would expect that the trend line in high-grade market share over the past several years would remain consistent with the previously reported figures while, at the same time, the total secondary market opportunity is larger.

Slide seven displays our quarterly earnings performance. Revenues of $65 million were up 2% from a year ago on higher data sales and technology consulting revenue. To provide a better comparison of year-over-year results, second-quarter 2013 figures have been adjusted to exclude a one-time out of period adjustment, related to the capitalization of certain employee costs previously expensed as incurred.

Total expenses were $35.9 million, up 7% from the second quarter of 2013. The year-over-year increase was consistent with our longer term expense growth rate. The effective tax rate was 37% for the second quarter and for June 30, year to date. Many factors can influence the tax rate and we are currently tracking at the low end of the 2014 guidance range of 37% to 40%. Our diluted EPS was $0.48 on a diluted share count of dirty 7.9 million shares. The sequential decline in our diluted shares from the first quarter of 2014 was principally due to share repurchases.

On slide eight, we have laid out our commission revenue, trading volumes and fees per million. Total variable transaction fees were down 3% year over year due to the 1% decline in trading volume and a 2% decline in overall fees per million. US high-grade fees per million were $178 in the second quarter. The average years to maturity of bonds traded of 7.6 years was consistent with the first quarter and within the post crisis range experienced on the platform. The uptick in fee capture from the first quarter level was mainly due to a minor shift in trade sizes.

The year-over-year decline in high-grade fees per million was due to a combination of lower durations and a shift to larger trade sizes. Fees per million in the other credit category were $308 in the second quarter, up $7.00 on a sequential basis and nearly identical to a year ago level. The sequential increase in fee capture was due to a mix shift within this category, slightly favoring higher margin emerging markets and high-yield volume and higher euro bond fee capture.

US high-grade distribution fees were up $1.2 million compared to the second quarter of 2013, due principally to several dealer migrations to the major US high-grade dealer plan and the second half of last year. One additional US high-grade dealer followed this same path in July 2014. We expect third-quarter total distribution fees will be several hundred thousand dollars higher than the second-quarter level.

Slide nine provides you with the expense detail. Second-quarter 2014 expenses of $35.9 million were up less than 1% sequentially. The sequential drop in employee compensation and benefits was due to a $900,000 seasonal decline in employment taxes and benefits, offset by higher wages and incentive compensation. Employee headcount was 318 at June month end, up from 300 at March 31.

Professional and consulting fees tend to vary quarter to quarter and are influenced by the level of spend surrounding IT consulting, legal, recruiting, audit, taxes, and other fees. The sequential decline is largely due to lower legal and recruiting fees.

The sequential increase in all other expenses is primarily due to higher sales and marketing stands in support of new business initiatives. We are now midway through the year and have greater visibility on our operating expense and CapEx forecast for 2014. We are reducing our full year guidance and now expect total expenses will be in the range of $144 million to $148 million and our capital expenditures will be in the range of $15 million to $17 million.

We are continuing to invest in our core initiatives and are on track to meet our year-end headcount goal. The decision earlier this year to consolidate data centers, the timing of new hire onboarding and lower variable incentive compensation were the principal drivers behind the guidance reductions.

On slide 10 we provide balance sheet information. Cash and securities available for sale as of June 30 were $199 million compared to $200 million at year end 2013. Free cash flow was a record $76 million for the trailing 12 months during a period when we had been investing heavily in Europe, Open Trading, CDS, and other initiatives.

During the quarter, we repurchased 189,000 shares at a cost of $10.4 million under the $35 million share buyback program we initiated in March. As Rick mentioned, the Board took action in July to increase the buyback authorization to $100 million. The original program was established to offset dilution from employee equity grants. This expansion allows us to repurchase more shares when we believe the share price is undervalued.

There was no change in our capital structure during the quarter. We have no bank debt outstanding, and didn't borrow against our revolving credit facility.

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

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

Thanks, Tony. Second-quarter results reflect continued momentum and a stronger competitive position in our core credit products. Open Trading adoption rates are accelerating and this remains the key area of our investment focus. European results are improving and incoming European regulations will create new opportunities.

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

QUESTIONS AND ANSWERS

Operator

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

Jillian Miller - *BMO Capital Markets - Analyst*

Good morning. So, yes, you guys have this larger authorization for buybacks in place and the stock is at kind of a multi-month low, so I wanted to check back in with you and see how you are thinking. You kind of alluded to this in your comments that -- I guess am I right in interpreting those remarks to mean that the plan has evolved from just offsetting dilution to potentially getting more aggressive here?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Yes, Jillian, that is exactly what this expansion is -- that is why we put it in place. And that -- you are right. That first $35 million, we -- when we announced it back at the beginning of the year, we said it was to really offset the dilution costs from share grants. And we have been active. We have been in the market every day buying against our 10b5-1 grid. And we had gotten questions at the time about whether we would expand that authorization. Clearly we have the capacity to do that. The Board did act in July. The expansion allows us to buy more shares when with the stock price is lower. Said a different way, it allows us to be more aggressive when we think the shareprice is undervalued.

Right now we -- you know, we believe we can execute on that program within our existing cash resources and free cash flow generation. But the timing of when we execute on that plan is largely dependent on where the shareprice goes. And so it is difficult to say exactly when we will complete the plan. Right now, it -- there is a defined termination date of the plan of December 31, 2015. But, again, the timing of that will be dependent on the shareprice.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. But right now you feel like the share price is one in which you would want to be buying back stock.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

You know, it's --

Jillian Miller - *BMO Capital Markets - Analyst*

In excess of offsetting dilutions.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Jillian, we have set up a -- we will set up a 10b5-1 grid. The grid will be established so that we are more aggressive at lower share prices. The share prices sort of bounced around here lately and would just envision us be more aggressive when -- more aggressive when we are at $45 than when we are at $55. It will be set up in that sort of grid.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. Fair enough. Then, on the trade web multi-dealer platform that I thought was supposed to start in July. I actually haven't seen any announcement about it commencing. But just wanted to get an idea for what you are hearing from your clients and dealers. If you have a sense for if this is going to be a similar trading model to yours or if it is going to be a different strategy and what your thoughts are on whether this is a competitive threat or not?

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

Sure, no, happy to take that one. We don't have anything outside of the media reports that are available to you and everyone else. But we are led to believe that they expect to launch in July, as you say.

We are not surprised at all that they are redoubling their efforts and credit given the growing size of the opportunity. And we respect them as a competitor. We have said all along that [Trade Weather] and Bloomberg both have the critical assets to be successful in electronic trading and fixed income given the breadth of their network. The technology assets that they have and the resources that they have. So, we very much respect Trade Weather in this space and as a strong competitor.

A couple of things. This is not new. Trade Web has been in the corporate bond market in the US since 2003 in various spurts with different protocols offered into the market. We anecdotally hear from clients and dealers that this -- the intent is to be offering protocols that look different than ours and we have heard two things about that.

One, that they -- it may involve some streaming levels from large dealers for US corporate bonds and that, two, they may offer some connectivity into the recently acquired retail pool of bond desk.

So much remains to be seen from Trade Web. I think it is wait and see from investor clients. We have not heard from them that they see anything earth-shattering in terms of anything new to the marketplace that we and others haven't thought about. But we will learn more over the coming months or so as Trade Web launches.

And they have a full agenda, right? They obviously are still integrating and digesting the acquisition of [Bond Desk] in the retail space. They recently launched their interdealer government bond platform to take on NASDAQ and ICAP in the IDV government bond space. They are, like all of us, a new entrant in the SEF space and trying to make sense of the SEF space and then simultaneously taking on credit.

So, they have a full agenda and I think our mantra here is the same as it has always been, which is that competition is healthy for the market and we are highly confident that we are focused on investing more in the credit space even in spite of our position and continue to deliver new and innovative solutions to our clients. And I think as long as we do that, we feel very good about our competitive position.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, thanks. That is really helpful. And then the final thing, I want to go back to, so am I right in thinking that essentially the reason you guys didn't provide us with July to date market figures is because it is almost impossible for you to determine a, I guess, apples to apples figure because of this new 144A stuff that is included in FINRA?

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

I think there are a host of reasons, Jillian. First of all, we have eight important trading days still left in July. But, yes, there are more moving parts right now midmonth than normal. One, because of the addition of 144As to the FINRA reported TRACE volume and we would like to work with you and the other analysts to make sure that we are reporting that in the best way possible at the end of July to make it easy for you to make prior year comparisons.

The second thing is that we have the recently determined double counting that is taking place in TRACE that we hope to learn more about through the month of July. And then, thirdly, the month starts on an odd week with the 4th of July with holiday trading activity for a couple of days leading into the fourth weekend. So for all those reasons, there are a lot of moving parts in the July market share estimates.

What we would say is that if you look apples and apples at the registered securities that FINRA reports, you see high-grade numbers that are weaker in July so far, but that doesn't come as any surprise to us, given the 4th of July holiday and some of the weaker days around that period.

The other thing of note about July is, last week was the first signs of volatility returning to US credit markets with a very active week in high-yield. And the high-yield index yields went up about 35 basis points in a week. There were significant outflows in each [yes] and in mutual funds active in high-yield. And as you can see from the TRACE data, there was a significant increase in high-yield trading volume and an improvement in electronic market share.

So it is a reminder that when we get better secondary trading conditions that comes with higher overall market volume and higher electronic share.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. Got it. Thanks, guys.

Operator

Mike Adams, Sandler O'Neill.

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

Good morning, Rick, good morning, Tony. So, to follow up on that last question, totally appreciate why you can't really comment maybe on July market share, but could you give us a little color on the mix that you have been seeing on the trading platform this month in terms of dealer mix, trade size, the yield to maturity? Anything that would change pricing quarter to date?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Mike, it's Tony. When you look at month-to-date right now, there's nothing that sticks out when we look at years to maturity, when we look at bid offer mix, other than what Rick just mentioned on the high-yield side where you did see a big shift in the bid offer mix and the high-yield side. But there is really nothing there in terms of trade size.

And again it is early in the quarter, though. And we are -- we have got a 60 or 62 day quarter and we are 14 days in. So a lot can happen over the balance of this quarter. But thus far in July, other than what Rick mentioned around high-yield activity, there is nothing that really sticks out right now.

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

Got it. Okay. Thanks. And then touching on some of the new initiatives here and specifically the Open Trading, Rick, I know you touched on the 35% increase to volume in the quarter.

I am just curious. I mean, we have seen pretty nice steady growth over the past couple of years and this is really the first quarter where you have broken out with really impressive gains. In your mind, what is driving that? Is it traction with your salesforce or is it more environmental in nature?

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

I think it is a couple of things. The protocols are new and it takes a while for investor clients to change their trading behavior and embrace new ways of trading. And as we mentioned in the past, the biggest thing that is new is being at the receiving end of inquiries and leading with a price. And I think as time goes on and they are seeing more and more trade opportunities on the system, they are putting more prices in, and they are getting more trades completed. So that all looks very positive to us.

The other big change that I see that -- during the quarter that I highlighted in the prepared remarks is the involvement of dealers in Open Trading and, increasingly, we are seeing more dealers viewing Open Trading as potentially an asset to their trading business and not necessarily a threat. And everything we have built in Open Trading allows traditional dealers to intermediate these trades on the half of their clients. And you do see, even among large dealers, you saw the announcement yesterday from JPMorgan, even among large dealers, you see them starting to embrace agency trading in credit.

And certainly that is what this is all about is, it is a new tool for dealers to promote agency trading with their clients and to clear and intermediate those trades on behalf of their clients. And that combined with the very favorable feedback we continue to give -- get from investors on how important this is to them and their future liquidity in the credit markets as they are grappling with massive regulatory changes among their dealer counterparts, that combination is driving the growth and it is giving us a lot of confidence that we are on the right track with the Open Trading strategy.

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

That is great color, Rick, thank you. And shifting gears over to Europe. You have maintained all along that you expect Xtrakter to be accretive in the second half of this year. And now that we are finally there, would you be willing to give us a little bit more detail maybe on the expected earnings accretion we can see in the coming quarters here?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Sure, Mike. We have talked about Xtrakter and our TRAX business over the last several quarters. And we look at the results to date. It has been about neutral to earnings since the acquisition. It is probably mildly dilutive -- a couple of pennies dilutive last year in 2013. It has been neutral in the first half of the year. The margins that coming out of the TRAX business are pretty consistent with their historical margins. So, in that 10% to 15% range. But when we overlay the amortization of our deal costs, that is what has been getting us to neutral at this point in time.

We do expect in particular on the data sell side, we do expect some improvement in the second half of the year. We do expect TRAX to be mildly accretive in the second half of the year. And that is on the back of continued rollout of new data products. There's data products around market volume, historical data, some real-time data. And what you don't see in the standalone TRAX results is that -- is the effect on our trading business. And we have said all along that what we are trying to do is drive more flow onto the trading platform and you are seeing some of that come through with this 30% or so increase in overall trading volumes from European clients. There is a big increase in Eurobond volume as part of that.

So we do expect some accretion the second half of the year. And I would say it's -- the improvement would be sort of a mild uptick from what you are seeing and to be mildly accretive in the second half of the year.

And, Mike, just to put it in perspective, the revenues coming out of the TRAX business rough numbers. We are around $13 million first half of the year. And so it is not all of what you are seeing in that info and post-trade line, but coming out of Europe it is about 70% of that line item.

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

Great. And, Tony, since you brought it up, I know you made some tweaks to some of your trade protocols in Europe. I think it was in late June allowing more dealers to participate on the RFQs for certain liquid bonds. Any early insight into the volume or market share pickup in the first month or so?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

I think the expansion in an investor choice on smaller trade sizes in Europe is one of the reasons that volumes have been up so far this year. But I also think we are benefiting from a broader product offering, right. There are higher-quality data products coming from both our trading business and the TRAX business that we are providing to dealer/investor clients in Europe. And there's a pretty good (inaudible) about the post-trade services and expansion of transaction reporting and trade matching. And we are just three months away from the move to [T plus 2] settlement in European fixed income and that is increasing demand for real-time trade matching.

So I think the broader product offering is resonating with European clients and it is driving the growth that we see in the trading business currently.

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

Got it. Great. Thank you, guys.

Operator

Ashley Serrao, Credit Suisse.

Ashley Serrao - *Credit Suisse - Analyst*

Good morning guys. Most of my questions have been asked, but I just want to get back to this concept of streaming pricing that Tradeweb is supposed to be providing. Just from historical context, have any of your competitors to date been able to do that who have not -- basically not been able to penetrate this market?

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

The short answer is no. The ability to stream in credit is certainly growing, and we see that as the protocol of choice in the CDS index business on SEF. As you know, Ashley, it gets much more complicated when you move further down the liquidity spectrum, and corporate bonds have always been a challenge to provide institutional liquidity and levels in a live or streaming environment. So we have many dealers streaming on MarketAxess, but they tend to stream in very small trade sizes with wire bid offer, and that obviously is not what investors are looking for, because typically they are getting better pricing than that through a competitive RFQ process. So, it's far from us to say it can't happen, but we haven't seen that protocol be successful in credit yet.

And like I said, I don't know enough about the Tradeweb strategy to comment on whether that's going to be a big part of the offering or not. That's just what we are picking up from the media reports, is that's one of the things that they are talking to dealers and investors about promoting.

Ashley Serrao - *Credit Suisse - Analyst*

Okay, appreciate the color there. And just sticking with Tradeweb, maybe at what point, granted that so far you've built a franchise that's withstood a lot of competitive threats, but if this were to gain traction, at what point do you look at them? How are you judging them? Maybe is it market share, or is it more on their number of clients they sign up? Like how are you benchmarking their success versus you?

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

We've always felt that they are a viable and important competitor in the space. Like I said, we've been dealing with ebbs and flows of Tradeweb in credit for about 12 years now, so none of that has changed.

With respect to the metrics, you bring up a great point, which is that Tradeweb does suggest that they promote transparency, but we don't have a lot of transparency on their results. So it would be a great asset to all of you and to the market if we did have more information on their trading volumes and market share trends and revenue models by product. But we don't have that, whether it's their core rates space or their retail space or the SEF -- like we are starting to see more information on SEF, but it would be great to have more transparency so that all of you would have a way to compare their progress relative to other important players in the space.

Ashley Serrao - *Credit Suisse - Analyst*

Got it. I guess finally going back to Xtrakter, as this kind of takes off in the back half and into next year, will clients have the option to either maybe soft dollar versus license some of these products?

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

You're talking about the data products, Ashley?

Ashley Serrao - *Credit Suisse - Analyst*

Yes, like I'm basically trying to get a sense of should we expect revenues to flow through noncommission or commission income, do they have that option?

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

We would expect a little bit of both.

Ashley Serrao - *Credit Suisse - Analyst*

Okay.

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

Certainly, we are rewarding active trading clients with expanded data products in Europe, and I think we are in the very early stages of developing and delivering products that are going to be valuable to dealers and investors. The region is suffering from a lack of transparency. We think we have a role to play in fixing that to improve liquidity in the overall European market. We like the fact that we are in the mix with dealers-investors making what we think are very sensible compromises about what data products we deliver, what goes out in real time, what comes out on a lag basis. But there's a lot of valuable data that we have in tracks that can help dealers and investors understand the liquidity trends and trading trends in the European credit markets. So part of that we would expect to see coming through in growing trading activity from our clients, and part of it we would expect to see as data revenue.

Ashley Serrao - *Credit Suisse - Analyst*

Got it. Thanks for taking all my questions.

Operator

Patrick O'Shaughnessy, Raymond James.

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

Good morning guys. I want to go back to the topic of the 144A securities. So I guess the first question there is you guys don't currently facilitate trade on those securities, do you? And if not, is this -- I think you mentioned it, but is this an opportunity for you going forward now?

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

We have always traded 144A securities. And I'd say in the high grade space, you look back over the past three-plus years, the past three and a half years, and it's a fairly consistent. Around 6% to 8% of our volume, of our high-grade volume has been 144A space. So it isn't zero.

The comments we made in the prepared remarks about increasing sort of the addressable market or expanding the secondary market opportunity, when we look at, at least the July information -- and again, unfortunately, we are in this situation where Trade has -- where FINRA has not released any historical information, so our data set is fairly limited. But you look at the July month to date information and it's about a 14% increase in US high-grade trades volume with the inclusion of 144A.

So, the important message, we have been trading 144A. It's been a very consistent part of our high-grade volume. Probably the more important take-away is just the size of the market opportunity is bigger, so we have sized up. For example, we, in the past, we've talked about what a 1 percentage point increase in market share would be across our product set.

We now look at high-grade, and we think that that 1 percentage point increase in market share is a bigger number today. With this limited data set right now, for July it's about 14% larger. Listen Patrick, I wish we had the historical information. We could recast this, we could give you what we all want in terms of share. We just do not have that information today.

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

Got you. But basically it's actually kind of making your market share more consistent, right, now, because your volumes are 144A and non-144A, and now the denominator is going to be reflecting the same, right?

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

That's correct, exactly.

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

Okay. And same story with high yield, you guys are trading 144A high-yield instruments as well?

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

Yes. Again, we've been trading 144A high-yield. And that one story is a little different in that the impact on the reported high-yield trace numbers is going to be bigger. At least what we have seen in July month to date, it could be a 60% increase, 60% increase in high-yield trace volume. And we have been trading high-yield 144A just like we've been doing it for high-grade. It hasn't been necessarily as consistent, as a consistent portion of our high-yield business, but just to put it in perspective, for this year-to-date, it's probably about 20% of our high-yield volume has been 144A. Again, all things equal, the reported market share will go down but we think the opportunity set is bigger, and in this case a lot bigger.

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

Okay, got you. That's helpful. And I guess touching on the double counting issue, what is the argument that some of these dealers are making of why they are reporting these trades twice?

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

We are not privy to the decision that one or more of them have made on reporting, but Patrick, we believe it has to do with back-to-back trades that are going to a non-US legal entity that had not been reported twice previously, and the decision was made in the second quarter to begin reporting both legs. We know, through our conversations with FINRA, that they are aware of this. They expect to take it up internally to make a decision on how they should address it going forward. So, we would expect that, somewhere around this time next quarter, we may have some guidance from FINRA on how to treat what is now these double-reported trades.

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

All right, got you. And then last one from me, so you guys talked about record high-yield and emerging market volumes this quarter. How much of that do you think is attributable to market share gains from you guys in those businesses versus a relatively robust overall trading environment in those products?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Probably a little bit of both, Patrick. It definitely can measure market share on the EM side. It looks like a little bit of an uptick and it looks like the velocity has picked up a little bit more on the EM inside. In high-yield, we look at the trace volumes and we look at market share, probably a small uptick in market share on that side with the bigger gain on the record volume, the bigger gain was on the emerging market side and the high-yield side. And that's one where we have less information, or not as reliable information to judge market share.

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

Right, the (inaudible) data that comes out about three months too late.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Exactly right. Exactly.

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

Got you guys. Thank you.

Operator

Hugh Miller, Sidoti.

Hugh Miller - *Sidoti & Co. - Analyst*

So, one question with regards to just some of the distribution fees you guys have talked about. I was wondering if you could provide some color. I think you mentioned a few hundred thousand dollars in distribution fees that you would anticipate being incremental in the third quarter, and how we should be thinking about the buckets there, and then color on kind of, within the Liquid Products segment, noticing kind of an uptick in that fee. The distribution fee is being a little over $200,000 versus normally seeing that closer to $50,000 for the quarter and what might be driving that.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Sure. I'll kind of take them piece by piece. On the US high-grade distribution piece, we've got this one dealer who will migrate in July from an all-variable plan to one of our fixed plans or one of our distribution fee plans. So, that one by itself will cause an increase in distribution fees. And as you know, all things being equal, that will cause a little bit of a decrease in our fee capture.

Hugh Miller - *Sidoti & Co. - Analyst*

Right.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

And we've talked about how that's pretty consistent -- it's pretty neutral in terms of overall revenue but it does cause a little bit of mix -- a mix difference there.

On that Liquid Products one, what's in there now and the majority of what you see in that distribution piece, that's what little we are charging for CDS on our set is residing in that bucket. So it was less than $150,000 in the second quarter was CDS related. We put it in that distribution fee line. It's really dealers who are streaming prices into our SEF, we are charging them. And again, it's sort of a modest number. And all things being equal, expect to see something similar, like similar to the second quarter in the third quarter and going forward.

Hugh Miller - *Sidoti & Co. - Analyst*

Okay. And I realize that the revenue on the US high-grade is neutral with the variable versus fixed rate. Can you just remind us again how we should be thinking about the fixed-rate portion from the step up from the one dealer?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

On the fixed rate side, it will be $0.5 million or more. And on the variables side, this one, given where our trading volumes are right now, and all else being equal, and you know there's lots of elements that go into the high-grade fee capture, but if it was solely this one item, this one dealer migration, you would expect the fee capture to go down $5 or $6 per million. But again, realizing there's a lot that goes into that fee capture number.

Hugh Miller - *Sidoti & Co. - Analyst*

Yes, I certainly understand. And just going back to your discussion around Slide 5 with seeing kind of a shift here in the prices back during the quarter and seeing that incremental rise, can you just talk about whether or not, is that a function of kind of a handful of larger dealers that are changing kind of their processes and getting comfortable with putting back prices, or is it kind of disseminated more widely across the platform that you are seeing? Any color on that for the rise?

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

What we are encouraged by is that we are not only getting an increase in prices back and trades and volume, but the breadth of participants is much larger. I mentioned the total firms involved have seen a significant jump in Q2 from $175 million or so to $260 million. So it's very broad-based. And there are more and more sophisticated alerts built into the MarketAxess trading system that are allowing both dealers and investors to identify potential trade matching opportunities, and those alerts are starting to take hold, prompting investors and dealers to provide a price back on a trade where they may have a match. So, we are very encouraged to see the breadth of people and participants through open trading.

There are all kinds of examples of where, in the old world, market participants could not connect with each other, and through open trading they can. And some examples are on the dealer side and some are on the investors side, and we are seeing healthy growth from both.

Hugh Miller - *Sidoti & Co. - Analyst*

Okay. And the feedback you're getting from clients about that change in sentiment and willingness or a comfort level to be able to provide back those prices and maybe trade on the alerts, is it more of a function of just kind of now having it for several quarters and being more comfortable acting on it, or is it kind of advances in technology that you are providing them with different protocols? Any thoughts there on feedback?

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

Yes. It's a little bit of both. Right? We have thousands of trade matching opportunities that are triggering thousands of alerts each day. And I think as investors look -- and every day has more alerts that say you have a potential trade match, they are reengineering their trading process to be in a better position to respond opportunistically when they have a potential match. So, I do think that the sophistication and the alerts and integration that we have with order management systems is a big positive. And with that, investors are starting to respond more regularly with leading with a price when they have a potential match.

Hugh Miller - *Sidoti & Co. - Analyst*

Okay. And then the last question I had is given kind of that feedback you're receiving, are there additional protocols that you guys are testing and considering rolling out in the coming quarters that would provide further advances, or do you think the set of tools that you've provided is kind of sufficient at this point?

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

Never sufficient. Credit is not a one-size-fits-all market. And our investment is broad-based in terms of providing a menu of choices to meet the challenges that credit presents in terms of the different liquidity in the securities in our market. If you look across the platform today from CDS through to cash, we have seven or eight different protocols up and running, and we expect to continue to add to that. So, there are certain enhancements that are available now that clients and dealers are just beginning to digest around things like RFQ add-ons, and we expect to be rolling them out in the second half of this year and beyond.

Hugh Miller - *Sidoti & Co. - Analyst*

And so do you view 2Q as kind of an inflection point? And do you have any color into what you are seeing with regards to month-to-date in July and whether or not we are kind of seeing consistent levels from 2Q or growth there from thereafter?

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

I don't even know the answer to that. The two weeks in July in the long-term are really not that relevant here, especially since one week was the Fourth of July week. But are we encouraged not just by what we see but the thousands of meetings that we have every month? We are.

There is a major shift going on in market structure caused by the regulatory changes, and large investors are very concerned about what the regulations have done to constrain dealer balance sheets for market making, and they are looking to find new sources of liquidity and increase the number of counterparties that they have available to them. And part of the shift in the second quarter is dealers getting involved in helping with that solution, and getting more comfortable with the notion that part of this market going forward is going to have dealers operating as agent as well as principal. So both the anecdotal feedback that we see in all the meetings that we have, combined with the metrics that we have provided to you today, do increase our confidence that we are well on our way to being a key solution to the liquidity challenges in credit.

Hugh Miller - *Sidoti & Co. - Analyst*

Great color, I really appreciate it. Thank you.

Operator

Niamh Alexander, KBW.

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

Thanks. Just to finish up on -- thanks for taking my questions on the solid quarter here too, congrats. The share repurchases, I guess it is very much a change from what we would've seen in the past. And just did I catch you correctly, Tony? Did you say it expires at the end of the year or it doesn't have an expiry date?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

With any sort of 10b5-1 program that you set up, you have to put an expiration date. And we can expand, we can extend. In this one we happen to take the view through December 31, 2015. And if we are trading at $65, it's going to take a longer time to act on that entire capacity under the program, particularly --

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

It's just a program? The authorization of some expiry date, but the program you put in place expires on December 31.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

That's all it is, exactly.

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

Fair enough, thanks. And I guess just on kind of the change in the strategy there with respect to the share repurchases, and you or Rick, maybe you could help me understand, because part of the open trading initiative was maybe you stepping in and kind of being the current broker if that's what the client wants just as an intermediate solution until you kind of come across some other carrying brokers. Is there anything changing there? Have the clients kind of moved more towards using the dealers that they select, or selecting a dealer as the current broker? Are you still kind of in that position there and you don't feel the need now to continue to build the capital?

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

In the short-term, there hasn't been much change. There are some large investors that are choosing larger financial firms to intermediate open trades on the MarketAxess system. And we would expect that to grow. We don't believe that, longer-term, we will be the clearer of choice for these trades. And as I mentioned earlier, we have offered all the dealers on the platform the opportunity to clear and intermediate these trades on behalf of their clients.

So I think it's early days to really say exactly how the clearing will be conducted for open trades. We have provided a straight-through service to investor clients in the short-term that they value, but there's no reason why major dealers can't offer that same straight-through service to their clients and intermediate more of these trades going forward.

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

Okay. Fair enough. I thought that was maybe one of the reasons you are not distributing capital either way, something -- until now, but it seems like some of the big clients are using some of the big dealers. Okay.

And then I guess moving onto the CapEx, the pullback in the guidance and the expenses there, I think you'd given some reasons there, Tony. It was primarily kind of incentive comp driven coming down and whatnot. But of three initiatives that you've given us the color on today, is there any one specific one there that maybe you are pulling back on some of the spend for SEF or something like that that drives the lower CapEx as well as run rate?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Really not. When we had the first-quarter call, we had guided toward that lower end of the range at the time. And we're halfway through the year now. Obviously we have a lot more visibility into the spend.

And I mentioned a couple of specific items. So we made the decision earlier this year around a data center consolidation. That does not impact what we are doing around investing in Europe and open trading in CDF, but we did make a data center consolidation decision. That has an impact on ongoing run rate or software cost hosting capital expenditure spend, so it's a pretty big impact on that one item. Even things around incentive compensation that I mentioned. When we built our model, our budget for this year, I can't say that we predicted the market conditions were going to be similar to what we faced over the last six months. We obviously -- we had some different expectations built in. That's a pretty big variable from where we were originally in terms of the guidance to where we are now.

The other part, I want to just make sure it's clear on. Even though our salary, pure salary, line is trending lower than the expectation, we are 100% on track with our year-end goals, our year-end employee headcount goals. And maybe the timing of when those new hires were onboarded shifted out a little bit, but in no way have we deviated from those expectations. And if today we are sitting there with 318-odd employees at the end of June, the expectation is by year-end we're going to -- depending on turnover, we will add to that number and we will end the year with 325 or 330 employees. And those additions we are making are in all those key -- surround those key initiatives. So we have not really deviated from that.

I will say the second half of the year, the biggest variable in the second half of the year and where we come out in expenses, big variables where we come out in incentive compensation, where revenues are in the second half of the year, and the other one that could bounce back and forth is just how successful we are with onboarding new employees and where we are with employee turnover. So, you see we've tightened up that range, and we are out at a different spot than where we were three months ago. But in no way do we feel like we've cut back the investments in the key growth areas, particularly Europe and open trading.

Just one sort of side note on CDS. There's probably a little lower spend on CDS in the second half of the year than there was in the first half of the year. We are in a bit of a quiet period -- or sorry, stasis period right now where legal fees will come down. We've probably more disciplined around some expenses, so there will be a slightly lower spend on that one.

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

Okay. That's helpful. Thanks Tony. I appreciate the color. And then just following up on an area of questions lastly, the [Centrimum] order book, you have one in place. It's just back to the kind of potential streaming prices. I'm just wondering. Have you kind of reached out? Have you kind of reached out recently to see if there was more interest on the part of the dealers to stream prices? Is that something your competitor's offering? I think it's something you could offer too? Have you revisited that recently with some of the dealers to stream some prices on there or is it kind of more you see there's kind of the less functionality in open trading and the alerts there is kind of much more captivating as potential for catching actually trades?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

We revisit protocols with dealers every day. We have a broad sales effort with the dealer community. We have a team that works with their trading desks every day. And we believe our priorities in terms of protocols are determined based on the dealer input we get and the investor input. We do not see any broad-based view among investors or dealers that a central limit order book for corporate bonds right now is likely to be a viable solution for the market, given the fragmentation and the liquidity in the corporate bond market.

There may come a day. I think that day will come from a combination of advances in market making technology, but importantly changes in issuer behavior that will lead to larger benchmark deals. And we have not yet seen a significant change in issuer behavior, but some level of standardization in the way that they issue bonds would certainly help secondary liquidity and would help move the market to something that could -- or at least a subset of corporate bonds -- operate in a more live environment. And we are highly confident, when the market is ready for that, we are ready to provide the technology.

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

Okay. Thanks so much.

Operator

(Operator Instructions). Michael Wong, Morningstar.

Michael Wong - *Morningstar - Analyst*

Good morning. As the other fixed income transaction fee line has become more important, do all of the factors that would affect US high-grade pricing affect the other category, like duration of bond trading and larger trade sizes? And are there any other characteristics that are particular to the other fixed income high pricing that might trump the ones I just mentioned for US high-grade?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Michael, it doesn't have quite the same dynamics. So at least the way the fee plans work today for the three principal products there, which is high-yield, emerging markets, and euro bonds, is those bonds typically trade on price, and we have just a pricing grid that we charge off of. It's not dependent on duration; it's not dependent on where maturity are, where yields are, so we don't have those sorts of elements.

The biggest challenge there is that this other credit is an amalgamation of a couple of products. And the single biggest factor causing shifts from period to period is the fact that one product might be growing faster or slower than another product. So, it's just a shift between the three products right now. So, at least today, we don't have those same sorts of dynamics affecting the other credit piece.

Michael Wong - *Morningstar - Analyst*

And then I guess just in general for US high-grade, I think you mentioned before what the duration or years of maturity has been since the financial crisis. But do you see the duration of bonds traded on for US high-grade on your platform decreasing much more from here?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

The last couple of quarters, we've been right around, say, between 7.5 and eight years. And that's within our post-crisis range. So if we look post-crisis over the last four or five years, the average years to maturity has been between 7.5 years and 10 years. And it does bubble around, but it's been fairly consistent the last several quarters. So that is a big influence. It's something to keep an eye on when we talk about fee capture and how it's moving around quarter to quarter. Duration and in particular years to maturity tends to be a big influence. It hasn't, the last couple of quarters, hasn't really move all that much. It's down a little bit from the one year ago level but still within that post-crisis range.

Michael Wong - *Morningstar - Analyst*

Can you remind me if you've ever said what the years to maturity trade on the platform was before the financial crisis?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

We probably haven't talked about it recently, but I can tell you that, in the sort of period immediately preceding it, talking about 2006 and sort of midway through 2007, which when we talk about sort of the onset of the crisis, it was when the floating-rate note market dissipated in the second half of 2007.

The years to maturity on our platform looks like 5.5 years or 6 years. It was a much different environment back then. It was a -- the yield environment was different. The credit environment was different. It was -- the yield curve was a flat or inverted yield curve at times. There's not a lot of trading the long end of the curve. It's different than what we see today. But yes, it had been lower pre-crisis.

Michael Wong - *Morningstar - Analyst*

Okay, thank you.

Operator

Jillian Miller, BMO Capital Markets.

Jillian Miller - *BMO Capital Markets - Analyst*

I was just wondering what your CapEx was for the quarter.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

It's a little bit more than $4 million. On year-to-date per CapEx, it's a shade north of $9 million. And just on that one item, I mentioned in the prepared remarks that we had lowered the range for CapEx. It's now $15 million to $17 million. It's down a couple of million dollars. It is solely and almost exclusively around the data center consolidation when we sort of bubble that through the forecast. That's the reason for the decline.

Jillian Miller - *BMO Capital Markets - Analyst*

Got it. Thanks.

Operator

At this time, I'm not showing any further questions.

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

Thank you for joining us this morning. Enjoy the rest of your summer, and we will talk to you next quarter.

Operator

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