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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by.

(Operator Instructions)

As a reminder, this conference is being recorded, October 21, 2015. 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. Welcome to the MarketAxess third-quarter 2015 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 results and financial conditions 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 view a description of risk factors in our annual report on form 10-K, for the year ended December 31, 2014. I would also direct you to read the forward-looking statement disclaimer in our quarterly earnings release which was issued earlier this morning and is now available on our website.

Now let me turn the call over to Rick.

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

Good morning, and thank you for joining us to discuss our third-quarter 2015 results. We reported solid results this quarter, driven by continued momentum in market share gains, across all of our core products. With record estimated market share in US high-grade and high-yield. This resulted in strong volume growth, including a record quarter for high-yield in emerging market volumes.

Total trading volumes were up 32%, compared to the third quarter of last year. Revenues for the quarter were $74 million, up 16% year-over-year. Pretax income was $35 million, up 25%, and EPS was $0.60, up 30%. Expenses were up 8% to $39 million. Open trading adoption continues to build, with new records for open trading volumes and participation.

Slide 4 provides an update on market conditions. We saw some signs of a change in the market environment in Q3, as concerns about global growth drove credit spreads wider and mutual fund flows turn negative. Taxable bond funds saw outflows during the quarter, following two consecutive quarters of inflows. At the same time, aggregated holdings of US high-grade and high-yield bonds for market making by primary dealers, continued to decline. Falling to a new low of $8 billion by the end of the quarter.

Credit spreads widened almost 30 basis points during the quarter, and credit spread volatility is on the rise. Combined US high-grade and high-yield trades volumes were up slightly year-over-year, while our Trax estimates for emerging market and Eurobond volumes were down. High-grade new issuance was 18% higher than the previous year and high-grade and high-yield corporate debt outstanding is now over $1 trillion.

Slide 5 highlights the breadth and depth of our trading platform. In order to navigate the liquidity challenges in today's credit markets, we believe market participants need the ability to access order flow from the widest possible network, together with a broad set of trading protocols. 957 firms were active on MarketAxess during the third quarter, up 14% from a year ago. Broad client engagement helped to drive total inquiry volume up by 51% year-over-year. Total inquiry count was up 43%.

We are continuously expanding and enhancing our range of innovative trading options for all trade sizes. Our [all to all] protocols, including market lists, and client [access] are fully integrated into the workflow of our RFQ model. As a result, we are delivering enhanced liquidity to our clients in an easy and efficient manner. Additional tools, such as work-up functionality, and dark [order broader] matching, bring greater flexibility to the trade process, and increase the probability of finding a trade match without information leakage.

We continue to see significant activity and block trading. During the third quarter, 66% of our high-grade volume was in trade sizes over $1 million, and 21% of our volume was in trade sizes over $5 million. The number of trades on the platform greater than $5 million in size, increased by 27%, compared to the third quarter of last year. 9% of all block trades over $5 million reported to TRACE during Q3, were done on MarketAxess.

Slide 6 provides an update on Open Trading. Open Trading volumes and client participation showed strong momentum during the quarter. A record 45,000 Open Trading transactions were completed up 125% year-over-year. And trade volume was $23 billion for the quarter, up 130%.

421 firms provided all to all liquidity during Q3, up from 262, one year ago. This growing engagement from market participants created 100,000 additional price responses for open orders during the quarter. We continue to see a broad cross-section of firms active in Open Trading, with dealers winning 40% of trades, long only asset managers winning 35%, and other market participants winning 25%.

While we are encouraged by the early growth of Open Trading, only about one third of large investors have embedded all to all trading in their daily trade process. We believe this bodes well for future growth. Over 13% of US high-grade and high-yield volume on the platform now takes place through Open Trading protocols. And market participants continue to benefit from transaction cost savings of more than 3 basis points in yield, when they complete a US high-grade trade in Open Trading.

Slide 7 provides an update on Europe. Our European business continues to grow with a 65% year-over-year increase in trading volumes from European clients during Q3. In addition to Eurobond trading, European clients are increasingly active with us in emerging market debt and US credit products. The enhancements that we made to the European platform earlier this year have been well received.

By providing the clients the choice to send their order flow to a broader number of dealers, we have been able to attract eight new dealers to the European platform in just the last two quarters. The enhanced liquidity on the European system is driving our hit rates higher. We are also encouraged by the rapid adoption of Open Trading in Europe, with 65% of Eurobond inquiry now being submitted to market lists. (Inaudible) technical standards for MiFID 2 were finalized last month. The regulations will require increased regulatory transaction reporting for both buy and sell [side] firms, and will aim to bring greater pre and post-trade transparency to European markets.

We believe that the implementation of these rules is likely to create greater demand for electronic trading, market data, and post-trade services. In advance of these regulatory changes, our innovative data products are already providing benefits to clients through increased transparency, and our data revenues are up 18% year-over-year.

Now let me turn the call over to Tony for a closer look at our quarterly financial results.

Antonio DeLise - *MarketAxess Holdings Inc - CFO*

Thank you, Rick. Please turn to slide 8 for a summary of our trading volume across product categories. Our overall global trading volumes were $240 billion, up from $182 billion one year ago. US high-grade volumes were $140 billion for the quarter, up 28% from the third quarter of 2014. The improvement in high-grade volume was attributable to the increase in estimated market share combined with a 10% year-over-year increase in estimated US high-grade trades volume.

Volumes in the other credit category were up 49% year-over-year, driven by order flow increases across all products. For the third consecutive quarter, we reported record trading volumes for high-yield and emerging market bonds. Eurobond trading volume was up over 80% year-over-year.

Trax and TRACE data indicate that overall emerging markets and Eurobond market volumes were down roughly 20%, and high-yield market volume was up approximately 7% year-over-year. This means that the vast majority of volume growth in our other credit category resulted from market share gains.

Slide 9 displays our quarterly earnings performance. Revenues of $74.2 million were up 16% from a year ago, driven by the estimated market share gains, and resulting growth in commission revenue. The stronger dollar dampened year-over-year revenue growth by 130 basis points, for approximately $800,000.

Total expenses were $38.8 million, up 8% in the third quarter of 2014. Absent the impact of the stronger dollar, the expense increase was approximately 10% year-over-year. Operating margins expanded by 370 basis points year-over-year, to 48%.

The third quarter effective tax rate was consistent with the year-to-date rate of 35.5%. At this point, we expect that the full year 2015 effective tax rate will be around 150 basis points below the full year 2014 levels. Our diluted EPS was $0.60, on a diluted share count of 37.6 million shares.

On slide 10, we have laid out our commission revenue trading volumes into fees per million. Total variable transaction fees were up 26% year-over-year, as the 32% increase in trading volume was offset by a 4% decline in total transaction fees per million. Our US high-grade fee capture is influenced by a number of factors, including the duration of bonds traded on the platform, trade size, and dealer mix.

Most of the $10 per million sequential decline in high-grade fee capture was due to the migration of two dealers during the third quarter, from the all-variable fee plan to the distribution fee plan. The migrations were roughly revenue neutral. The sequential and year-over-year decline in the other credit category fees per million was principally due to a mix shift within this category, with the heavier weighting towards Eurobonds and emerging market sovereign bonds. US high-grade distribution fees were up almost $1.3 million sequentially, on a combination of the dealer migration impact and higher unused minimum fees on the all-variable plan.

We currently expect two dealers to migrate from the distribution-fee plan to the all-variable high-grade fee plan, resulting from a reduction in their market-making business models. Fourth quarter distribution fees are projected to be approximately $1 million lower than the third-quarter level, with some offset in variable transaction fees.

Slide 11 provides you with the expense detail. Total third-quarter expenses were up $400,000 from the second-quarter level. The sequential change in employee compensation was due to an increase in headcount from 311 at June 30, to 335 at September month-end. The majority of the headcount expansion related to sales and technology personnel in support of Open Trading and other initiatives.

On a year-over-year basis, the 13% growth in compensation and benefits was due to a combination of higher variable bonus accrual, which is tied directly to operating performance, higher equity-based compensation, and higher salary expense on an increase in headcount. In the aggregate, non-compensation costs were up less than 3% year-over-year. Higher clearing costs reflected in the G&A line was offset by lower IT consulting costs, and lower technology-related costs.

On slide 12, we provide balance sheet information. Cash and securities available for sale as of September 30 were $256 million, and trailing 12 month free cash flow reached $103 million. During the third quarter, we paid a quarterly cash dividend of $7.3 million, and repurchased 58,000 shares at a cost of $5.6 million under our share buyback program. As of September 30, approximately $42 million was available for repurchases under the program.

Our Board has approved a $0.20 regularly quarterly dividend, payable on November 18 to record holders on November 4. There was no change in our capital structure during the third 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 - CEO & Chairman*

Thanks, Tony. We are encouraged by the growth trends in our business, across products and regions. The [strains in] corporate bond liquidity are becoming more pronounced, driving greater demand for alternative sources of secondary market liquidity. We continue to invest actively to deliver valuable technology solutions to our clients for trading, data, and post-trade services.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Mike Adams, Sandler O'Neill.

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

Good morning, gentlemen. A question here on Open Trading. Rick, you mentioned that in terms of customer penetration, about one third of your long-only customers are active with the open trading protocol. Are they all responding with prices to [inquiries]?

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

I wouldn't say they are all responding. I think the group that does respond is probably closer to 70% of the top investors that use the system. The ones that are doing so regularly and actively are the one-third of that group that I mentioned. So each quarter, we see an increased base of investors that are changing their trading process in order to be able to respond. And I would say, even for those that don't respond electronically, they are seeing much more trade opportunity through the open order book than ever before. And they do have the ability to provide prices through one of their dealer counterparties to submit through the system. So it's quite possible that the impact on the open orders is broader than we see on the fully electronic trade responses.

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

Got it. Thanks. I think you guys did a nice job of explaining some of the pricing dynamics in the third quarter, but, now could you talk more broadly about some of your pricing plans outside of high-grade. The other credit products, the price in there has been static but we've seen the liquidity pool increase substantially. Just trying to figure out what the long-term trajectory is there, and any potential changes that are maybe on the drawing board for other credit.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Mike, it's Tony. On the pricing side, I'd say that we're spending more time thinking about pricing and in some cases, we are -- we'd like to promote behavior. For example in Open Trading we do have situations where we are promoting participation and discounting pricing. Right now, on the other products in that category, we have made some changes over the years to our Eurobond pricing model. We have a variety of programs and dealer choices for those programs. Where it's been pretty static right now has been with high yield and emerging markets, where those programs have been in existence for a while. We think that the program or the pricing model that scales better is one where it's a take or pay model. Right now those are dealer-pay models. It's a little too early to say whether or not we would change anything there. But we continue to think more about pricing and how we can -- and set behavior in that case.

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

Got it. And maybe somewhat related to this, but Rick could you update us on the competitive market environment. We touch on it every quarter, but there's been quite a few new launches. And one established equity platform that recently made a pretty high profile entrance into corporate bond training. Have you seen or heard of any changes from your competitors there?

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

I don't think there's -- during the third quarter there's anything substantial that's changed in the competitive landscape. I continue to believe that the big challenge is getting client connectivity established to the point where trade matches are possible on some of the new entrants. And nothing that we see in the competitive landscape would suggest that anything has changed during the third quarter. You can see that our growth numbers have done nothing but accelerate. So, we feel very good about our competitive position. We continue to expand the platform in terms of the number of participants, the protocols offered. The order is available on the platform, and right now we do believe that our competitive position is as strong as ever.

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

Got it. One last one from me and then I'll get back in the queue. Tony, in terms of comp, you noted that -- I think you added about 24 employees during the quarter. Can you talk about, one, like what the pipeline looks like in terms of open positions you're trying to fill before year end? And then just in terms of the timing of those adds, was it more front quarter or back quarter weighted?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Yes, Mike. We did end the quarter with 335 employees. It was a very active period for us in terms of hiring. Most of those hires were in sales, which are revenue-generating positions. And in technology. To give you a little bit of color, it was both in support of new initiatives like Open Trading geographic expansion, and that mix just from a geographic standpoint was around 50% in the US, and 50% outside of the US. It was probably evenly -- a little bit evenly distributed maybe a little bit back ended in that case. There's still a handful of open positions that we are hiring for right now. It's tough to predict where we'll end the year. We do expect to hire several additional positions over the course of the fourth quarter. Barring any attrition, we'd be up slightly at year end. What I'm telling you there, is when you look at the comp expense, and all else equal, we would expect that comp expense to creep up a little bit in the fourth quarter.

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

Got it. Understood. Thanks, Tony.

Operator

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Hey. Good morning guys.

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

Good morning, Patrick.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Want to follow up on the last question about the growth of your sales capacity. To what extent has your sales model changed as you have rolled out more Open Trading and tried to push block trading? And just as you've adapted the business model, has your sales model changed? Or are you just trying to add more contact points and just getting in front of people more often?

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

It's a combination of the latter and the fact that we are serving more dealers and clients than ever before right now. When you look at the increase in the client base both investors and dealers over the last year, it's significant. The improvement in Europe is partly because of the technology enhancements, and partly because we've significantly increased our sales force to work actively with European clients. It's a little bit of both. But as we add clients and we add more protocols and products to the trading platform, we will also continue to add sales resources to make sure that we're in front of our clients regularly.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Got it. I appreciate that. And then moving on to the competition topic. Certainly, some of the competitors are trying to compete on the basis of price. Not necessarily in the near term but over the long term, how well do you think you guys are positioned against price competition? How stable do you think your pricing model is going to be over the long term?

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

It's pretty clear over the long term, it's been extremely stable. Remember, Patrick, in the world of credit, transaction fees are a very small part of the net cost of the transaction to the client. When we see in Open Trading that we are delivering more than 3 basis points in yield savings to the client, that's the most relevant factor to them. Is what is the liquidity pool doing to lower their transaction costs? And when you look at our transaction fee relative to that level of savings for the client, it's still a very small.

This is not new, Patrick. You know from following us for many years that most competitors have tried to compete on price. The reality is, our liquidity pool is unique. And the protocols that we have available consistently drive a lower cost of transactions to the clients that use our system. Looking at commissions is just one part of the equation. The competition is really about who can deliver the best net cost to the client, and our liquidity pool has consistently done that.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Got you. Then the last one for me, from the data that we are looking at, it looks like October industry-wide trading volumes have been very healthy, particularly in high-yield bonds. What do you ascribe that to? Then, how do you square that with everybody's concerns about getting access to liquidity? It doesn't seem like that as being a big constraint right now.

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

The early few weeks of October, you're right, the US numbers are up. It's a lot of one-time flow from an active period in M&A. The HP restructuring, and a significant amount of activity in 144As. So, some of it is situational that's not likely to be sustained over a longer period of time. When we look at emerging market and Eurobond volumes, we don't see the same kind of growth rates. Although Eurobonds have bounced back from the seasonal lows in the third quarter.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

All right. Great. Thank you.

Operator

Hugh Miller, Macquarie.

Hugh Miller - *Macquarie Research - Analyst*

Good morning.

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

Good morning.

Hugh Miller - *Macquarie Research - Analyst*

Hello. A couple of questions. One, I appreciate the color you guys gave on the adjustment for 4Q with the two dealers that are going to move away from the Be All You Can Trade platform. Typically, when we think about dealers migrating upward, you guys always talk about it's relatively revenue neutral in the near term. In this case, can you talk about how we should be thinking about the potential volume commission offset from the reduction in the fixed fees?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Sure. You're right. Typically when we have migrations from the variable plan up to the distribution fee plan, in the short term it is revenue neutral. In this case, in the fourth quarter, what we are tracking, we have two dealers who have -- they've really changed their business model. And changed their market making capacity, and they will be rolling off of the distribution fee plan. And if we just looked at their activity for the third quarter, I would tell you in this case, it is likely not to be revenue neutral. We would have some offset from the reduction in distribution fees, with an increase in variable transaction fees. But it would not be revenue neutral.

Hugh Miller - *Macquarie Research - Analyst*

Okay. We should just think about potentially a moderate or modest offset on the transactional side relative to the $1 million contraction in fixed rate fees?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Yes. I'd say all else equal because there's lots of items that impact that high-grade fee capture, including duration and dealer plan mix and trade size and protocols. There's lots of influence but just in isolation, yes, you're right.

Hugh Miller - *Macquarie Research - Analyst*

Absolutely, okay, thank you. Did you guys -- I didn't catch it did you guys update your expense guidance for the year? I'll leave it there.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

No. We didn't update it so it's -- that original expense guidance still stands which was, at this stage is a pretty broad range of $153 million to $159 million. If you look at where we were through the first nine months, and then just did some simple arithmetic and assume the fourth-quarter is similar to the third quarter, it's going to get you somewhere around $154 million or $155 million. Somewhere squarely within the range. We are still tracking a couple of items that are variable. That variable incentive bonus which is tied to operating performance could swing it up or down. The headcount growth which I'm pretty certain that the salary expense line will increase just given the recent headcount growth. We're always a tracking foreign exchange impact, so that could swing it one way or another. We're going to be squarely in the middle of that range. Or maybe a little bit below the middle of that range.

Hugh Miller - *Macquarie Research - Analyst*

Sure. You guys had given some color with regard to kind of the other credit category for pricing there, obviously seeing a shift towards more Eurobond. Within EM, can you just remind us again about the fee capture between corporate and sovereign blend? What you're seeing there and how we should be thinking about the trends there and the fee capture on a go forward basis for that part?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Sure, Hugh. What we've talked about before, we haven't changed our fee plans for emerging markets. And that mix between corporates and sovereigns does matter. When we look at EM, it's -- you can think about it in three buckets. We have emerging markets external corporate debt, we have emerging market external sovereign, and we have emerging market local markets sovereign debt. That mix right now is about 40% external corporates, 40% external sovereign, 20% local market sovereign.

Where we see the growth over the past year it's been in sovereign debt. Even though all three of those buckets have grown year-over-year, the growth has been in sovereign debt trading, and in particular in local markets trading. There we've added more dealers, more market making dealers, we have more currencies that we're making markets in. We had put out a release about a month and a half ago on activity in the local markets area. That trading volume's up around 200% year-over-year. Just from a mix standpoint, it matters. And rough numbers, the fee capture for corporate emerging markets is about double the fee capture for sovereign bonds.

Hugh Miller - *Macquarie Research - Analyst*

Okay.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Figure about $150 million or so per million per sovereigns. And [300 plus] for corporates.

Hugh Miller - *Macquarie Research - Analyst*

That's very helpful. Yes. It's kind of where the disparity came, with what we were modeling out. Is there anything that would cause you to see that changing in the coming quarters? Obviously, nobody has a crystal ball. But any trends you're seeing there or should we continue to expect to see the sovereign growing as a percentage of the total?

Tony DeLise - *MarketAxess Holdings Inc - CFO*

From a geographic standpoint, we are spending more time in Latin America, in the Asia-Pacific region. We've added resources there. We've added dealer liquidity there. If that trend continues in driving local markets trading forward, you could see some compression there. But a lot of this is market conditions related as well. You look over the past year, emerging market volumes are down significantly. And it is a bit episodic so it's a little difficult to predict that mix between corporates and sovereigns.

Hugh Miller - *Macquarie Research - Analyst*

Yes. That's a fair point; that is helpful color. Thank you. With regard to -- we talked a little bit about the overall October volumes that we're seeing in the US and outside. What are you guys seeing in regards to market share for US high-grades so far in October?

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

It's very early, Hugh. We're just a little over halfway through the month, so hard to make conclusions about where the month, let alone the quarter might end up. When we look across our four products, there are no huge surprises. As I mentioned earlier, there are some M&A situations driving growth in high-grade trading activity, especially in 144A, that are not the kind of trades that we would typically take part in a large way. So, the [month-to-date] number is a bit softer in high-grade but it's too early to draw any major conclusions.

Hugh Miller - *Macquarie Research - Analyst*

Okay. That's helpful. And last from me, there have been some discussions about you guys looking at some ancillary markets, munis, and others. Could you give us an update on your thoughts there? How we should be thinking about your moving forward and the incremental costs and the longer term opportunities to grow in those segments?

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

As we're out talking to clients, it's clear that the liquidity challenges stretch far beyond just the credit areas that we offer today. We are getting more and more regular requests from our clients to expand the product offering that we have on our system. And quite honestly, we've been investing very actively through this year in Open Trading and Europe. And we're really encouraged with the returns from those investments. So, we are hard at work thinking about ways that we can better serve our clients with expanding the product set on the trading system.

We have three main areas that we are looking closely at, and it's likely that in the new year, you're going to see us get involved in more markets. We've had requests from our clients in the municipal bond market for leveraged loan trading, and we are also expanding our service offering to the ETF community. And those three product areas are likely to feature in the new year.

Hugh Miller - *Macquarie Research - Analyst*

Okay. That's helpful. Typically when we look at expense growth from you guys, we're looking at mid to high single digits. As we think about the expansion there obviously it's not something that's going to be revenue or earnings accretive in the near-term. But how should we be thinking about the incremental costs of some of those investments? As we think about the growth rate for expenses next year?

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

I'm not sure about your question about earnings accretive. Obviously, the expense increase this year has been earnings accretive. So, our earnings are up by 30% this quarter, and the expense rate is up. And it's all because of our confidence in the long-term growth of this business. These challenges brought on by regulatory change are widespread. We believe that we can continue to deliver technology solutions to our clients that will help with the changes in market structure that are taking place. We think the exact right thing for the company to be doing at this time, is expanding our staff to be able to deliver broader and deeper solutions to our clients to deal with the changes that are taking place.

We have had great returns on the investments that we've made. 30% earnings growth that this quarter and 48% margins, I think reflects that we are investing in the right areas. We're going to invest as we see opportunities in the new year. Has it radically changed? The expense run rate increases that we've seen in the past? No. It has not. We would not expect it to in the new year either, but we are investing. And one of the things I feel best about in the third quarter, is the quality of the staff that we were able to attract to the company to help us grow the business for many years out. I do think we're going to continue to add staff just because we see a very large opportunity in the future.

Hugh Miller - *Macquarie Research - Analyst*

Sure. That's helpful I apologize. I wasn't implying that the investments you've made historically haven't been accretive. They absolutely have. I was thinking about it in terms of just -- if you think about municipals, levered loans, fixed-income ETFs, I assume you aren't spending a lot of money at this point. But if you're making a push next year to expand there, that the growth in expenses might be a bit ahead of seeing any revenue contribution from that type of investment until we see substantial volumes of being attracted there. Maybe I'm thinking about it incorrectly but --.

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

I think that you are, Hugh.

Hugh Miller - *Macquarie Research - Analyst*

Okay.

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

We are leveraging an installed network of nearly 1000 active investor and dealer firms that use our trading system. And 15 years of investment in technology and protocols.

Hugh Miller - *Macquarie Research - Analyst*

Okay.

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

As a result our incremental costs to get into new markets are relatively low, and the work to attract clients is negligible. We will add staff, but our ability to see volume and revenue and earnings contributions from new products is much better than it would be with brand-new entrants to the market.

Hugh Miller - *Macquarie Research - Analyst*

Okay. That's perfect; that answers the question. Thank you very much.

Operator

Kyle Voigt, KBW.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Hi. Thanks for taking my question. Most of my questions were answered. I'll just do one on capital. The cash balance is up again in the third quarter. Around $266 million now. You said in the last call that you were happy enough with cash balance as of June 30 to support your Open Trading initiatives. Which implies that there's some excess cash in the balance sheet, which we would again expect to grow in the fourth quarter. You've done special dividends in the past, I'm just trying to understand whether there's been any change in the thinking at the Board level with respect to preference for returning cash to shareholders? Thanks.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Kyle, today we have two standing programs in place to return capital. That's the recurring dividend, and we have the share buyback. And we are reviewing our capital plans with the Board every quarter. We do speak to and listen to our shareholders as well. And you can see a pattern at least in the dividend. You can see a pattern where it's a -- typically a once a year exercise in January where we're revisiting the level of that recurring quarterly dividend. We also like having a standing repurchase plan in place. And at a minimum, offsetting dilution there.

Clearly, we have lots of flexibility today. I'll tell you the plan in the short term is to stay the course. The plan is to continue with the recurring quarterly dividend in the short term. The plan is to continue to execute on the share buyback program. Also in January, I'm pretty sure you'll hear from us on the thoughts around what we're doing with the recurring quarterly dividend.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Thanks. On the core business, Europe, obviously you are gaining share in the total market given the growth in Eurobonds and emerging markets. Is there anything you can say anecdotally as to whether this is electronic trading growing in Europe, or whether you are taking share from a large incumbent electronic trading platform there.

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

We believe it's probably a little bit of both. The demand for electronic trading is growing in all regions. The pace of our growth in Europe is well beyond the overall markets. So part of it reflects taking market share away from some of the other electronic trading venues in the region. I think it's a combination. We're offering unique protocols that have proven to deliver better transaction costs to our clients. And we have increased our sales resources to be in front of more clients. We are encouraged by the early results but it is early days in Europe. We are not where we want to be. We have a lot more work to do. We think we're on the right track and the client response to the changes that we have made this year has been very good.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. That's all for me. Thanks.

Operator

Ashley Serrao, Credit Suisse.

Ashley Serrao - *Credit Suisse - Analyst*

Good morning.

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

Good morning.

Tony DeLise - *MarketAxess Holdings Inc - CFO*

Hi Ashley.

Ashley Serrao - *Credit Suisse - Analyst*

First question, to circle back [on] October, could you size the adjusted volume number once you back out the 144As and back-to-backs? So give us a base to go off of for market share.

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

I'm not sure I understand the question. The TRACE numbers are obviously public, Ashley, so --

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Ashley Serrao - *Credit Suisse - Analyst*

No. The way you adjusted. You mentioned that 144As outsized this quarter, so far this month. And there's some high-yield related M&A activity that you're not really participating in. So, curious if you could narrow that further.

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

So Ashley, on October, and this is for high-grade and typically, 144A, it runs something like 10% or 11% or 12% of total high-grade TRACE volume. So pretty consistent pattern on 144A. In October, what we're seeing is 144A is over 20% of TRACE volume. So, we're seeing a significant increase in the percentage of high-grade TRACE volume in 144A.

Ashley Serrao - *Credit Suisse - Analyst*

Yes. That's exactly what I was asking. Thank you. The next question I have was just on the ongoing dealer migrations. How many dealers, when you look at your current client roster, are there a lot of dealers who are in a position where it just makes more sense to transfer from a variable to a fixed-fee plan?

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

Ashley, based on the parameters of the variable-fee plan and the distribution-fee plan, purely looking at that on an economic decision, there probably are not many in the queue that would move one way or another. Today, we have 30 dealers on the distribution-fee plan for high-grade, around 40 on the variable plan. There is a couple of dealers on that variable plan who, economically may be bumping up against a move. But there's lots that goes into their decisions, and it's difficult to predict. But right now, we are not -- other than the two that I mentioned we are not tracking any moves currently.

Ashley Serrao - *Credit Suisse - Analyst*

Okay. And then, just a question on Open Trading. I understand that you are discounting pricing to incentivize behavior. The two-thirds of clients who haven't really embedded the euro solutions and protocols into their workflow, what gets them over the finish line.

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

It's happening every quarter. Trading behavior with institutional investors is slow to change. The combination of accessing liquidity through traditional means, getting more difficult. The success that we're having delivering new sources of liquidity is moving more and more clients our way each quarter.

Ashley Serrao - *Credit Suisse - Analyst*

Okay. And then, when I just look at TRACE [crossable] activity, it seems like high-yield -- the amount of activities that's crossable by [CUSIP] as far as high-yield goes, continues to increase. Can you give us any insight into what's driving that and, yes, really what's driving that. Because it had diverged from investment grade. It's stayed relatively flat.

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

I'm not sure I fully understand the question. You're looking inside TRACE at the crossing opportunity?

Ashley Serrao - *Credit Suisse - Analyst*

Yes.

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

Some of it might be the story bonds and high-yield that have been very active recently. Around some of the upgrades and downgrades in M&A activity. So you might be seeing short-term pockets of concentration around certain issuers or bonds. Within what we see in Open Trading, the demand for Open Trade runs greatest for the least liquid bonds. We do see higher percentages of our volume completed in Open Trading in the high-yield, than we do in high-grade. Which makes intuitive sense to us. That where it's most difficult to access traditional liquidity, people are seeking new protocols through Open Trading to find the other side of the trade.

Ashley Serrao - *Credit Suisse - Analyst*

Okay. That's all I had. Thank you.

Operator

(Operator Instructions)

Mike Adams, Sandler O'Neill.

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

Hey, guys. One last one. I don't think we've really touched on the regulatory environment. And there was a recent development when the SEC proposed new liquidity risk management rules for mutual funds. It seems like this could create some additional demand for your data services. Could you comment on this opportunity? And maybe give a sense for how large this could be? Would it really move the needle for the data business?

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

I think you're absolutely right. We see that increase in demand for data products coming through on both the US and the European side. The early days of liquidity stress testing for Investment Management portfolios really requires quality products around turnover and volume statistics for the underlying securities. We are seeing growth in incoming inquiries on that front in both regions. When you look at the European side, there are also best execution guidelines in MiFID 2, that are increasing the demand for both data products, which we have in Trax as well as TCA analytics. Over the next 18 to 24 months, Mike, you're absolutely right that those regulatory changes are likely to drive demand around data products.

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

Got it. Thanks.

Operator

At this time I would like to turn the call over to Rick McVey for closing remarks.

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

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

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This concludes your program. You may now disconnect. Everyone have a great day.
