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Kyle Voigt *KBW - Analyst*

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. (Operator Instructions) As a reminder, this conference is being recorded July 28, 2016. 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 2016 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 see the description of risk factors in our annual report on Form 10-K for the year ended December 31, 2015. I would also direct you to read the forward-looking statements 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 of the Board & CEO*

Good morning and thank you for joining us to discuss our second quarter results. This morning we reported strong second quarter results driven by record trading volumes. Second quarter revenues were a record $97 million, up 28% compared to the second quarter 2015. Record pre-tax income for the quarter was $51 million, up 36% from a year ago and diluted EPS was a record $0.88, also up 38%.

Record trading volumes of $338 million, up 38% from a year ago were driven by a powerful combination of market share gains across all four of our core products and the near-record level of overall US high-grade and high-yield TRACE market trading volumes. Our estimated US high-grade market share was 16.1% in the second quarter, up from 14.8% a year ago and estimated high-yield market share was 7.1%, up from 5.4%.

Open Trading adoption continues to accelerate and reached record volume and client participation in the second quarter. Clients continue to benefit from transaction cost savings and the number of market participants providing liquidity through Open Trading protocols continues to grow.

Slide four provides an update on market conditions. Overall, second quarter market volumes remained elevated at near record levels with high-grade TRACE volumes up 17% and high yield volumes up 12% from a year ago. We believe the increase in trading activity in these markets reflects an active new-issue calendar, higher credit spread volatility, and inflows into US credit from global investors searching for yield.

It is interesting to note that TRACE market volumes for both high-grade and high-yield in the first half of this year are setting new records while primary dealer holdings for market making continue to fall. This demonstrates that both dealers and investors have adjusted to the new regulatory environment and are finding new ways to transact in credit markets. This ongoing transformation is encouraging as it could signal a return to higher levels of [secondary] turnover for credit products with a growing base of outstanding debt that now totals approximately $8.5 trillion for US high-grade and high-yield products alone.

Slide five provides an update on Open Trading. Open Trading volumes reached another record high of $41 billion in the second quarter. Over 93,000 all-to-all trades were completed during the quarter compared to 38,000 in Q2 2015. The number of unique liquidity providers or price makers on the platform continues to increase. In the second quarter, the list grew to 619 firms, up from 375 in Q2 a year ago. This expanding pool of participants helped drive a 250% year-over-year increase in Open Trading price responses. In the second quarter of 2016, liquidity takers saved an estimated $27 million in transaction costs through Open Trading on the system. This quarter, US high-grade open trades resulted in average savings of 4 basis points in yield and high-yield trades resulted in average savings of $0.40 or $4,000 per million traded.

As the pool of participants grows in Open Trading, the transaction costs savings accelerate for our clients. We see the potential for further growth ahead in Open Trading. Both dealers and investors need alternative sources of liquidity and we are in early days of market adoption for all-to-all trading. When we analyze our most active clients on the system, about one-third are regular open trading price takers, about one-third are occasional price makers, and about one-third have yet to get started. We believe client adoption is likely to continue to improve.

Slide six provides an update on Europe. Our European Trading business continues its growth trajectory with a 100% year-over-year increase in trading volumes from European clients during Q2. We are gaining Eurobond market share as [our 126%] growth in Eurobond market volume far outpaced the estimated growth in market volume of 11% reported through Trax. We are also seeing healthy growth in trading volumes in emerging markets and US credit products from European clients. The second quarter reflects a new high for client engagement with our platform. Active European client firms grew 25% year-over-year and our cross-selling efforts are coming to fruition as the number of European firms trading three or more products with us was up 43% to 225 clients. Data revenue is up 22% from the second quarter of last year as a result of the innovations and enhancements to our European data product set.

Trax data is now integrated with the trading system offering clients differentiated price discovery that we expect to drive increased trading volume on the platform.

We continue to enhance Axess All, the first European trade ticker and we have launched value added trade reporting and transaction costs analysis tools in support of client trading activities. We are pleased with the progress we're making in expanding and deepening our presence with clients in the European region. Now let me turn the call over to Tony for more detail on our financial results.

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

Thank you, Rick. Please turn to slide seven for a summary of our trading volume across product categories. US high-grade volumes were $189 billion for the quarter, representing a 27% increase from the second quarter of 2015 on a combination of the increase in estimated market share and higher trade volumes. Volumes in the other credit category were up 68% as trading in Eurobonds more than doubled year-over-year and both emerging markets and US high-yield volumes were up more than 45%.

Similar to US high-grade, the other credit volume gains were due to a combination of growth in estimated market share and an increase in market volumes. The second quarter marks our launch of trading in municipal bonds and while it is early days, we are encouraged by the level of client participation. We have documented over 250 investor clients in almost 100 dealers and over [160 firms] have executed their trades since the launch. With two trading days left in July, we expect overall average daily trading volume will be slightly below second quarter levels.

While the year-over-year volume growth rates versus July 2015 looks similar to the second quarter, we expect US high-grade market share to be below the second quarter levels and US high-yield market share to be above the second quarter level.

On slide eight, we provide a summary of our quarterly earnings performance. Revenue reached a record $97 million, up 28% from a year ago. The record trading volumes led to a 30% year-over-year improvement in quarterly commission revenue. Information and post-trade services revenue increased almost 13% year-over-year on stronger data sales.

Total expenses were $46 million, up 20% year-over-year. The quarterly and year-to-date expense growth rate exceeds our long-term compound annual growth rate but also comes at a time when we are investing in people and systems to support our growth initiatives. Of note, at the same time we are investing for the future, we also achieved record operating margin of 52.3%.

Subsequent to the Brexit vote, the dollar strengthened significantly versus the pound sterling. If we apply the current foreign exchange rate to our first half results, revenue and expenses would each have been approximately $2 million lower. Effective tax rate was 34.5% in the second quarter and the year-to-date tax rate fits within our full year 2016 guidance range. Our diluted EPS was a record $0.88 on a diluted share count of 37.7 million shares.

On slide nine, we have laid out our commission revenue, trading volumes, and fees per million. A 38% increase in trading volume and relatively flat overall fee capture led to a 39% year-over-year increase in variable transaction fees. Overall distribution fees in the second quarter were consistent with first quarter and prior year levels. Our US high-grade fee capture is influenced by a number of items including the duration of bonds traded on the platform, trade size, and dealer fee plan mix. The [$11 per million] sequential increase in high-grade fee capture was primarily due to slightly higher yields to maturity and lower yields for bonds traded on the platform. Our other credit category fee capture is influenced by the product mix between Eurobonds, emerging markets, and high-yield volume mixed within a product and protocol [mix].

On a sequential basis, the fee capture for the individual products was [safe]. The [$6 per million] sequential declines in fee capture was due almost entirely to mix shift between products as the growth in emerging markets in Eurobonds outpaced the growth in high-yield trading volume.

Slide 10 provides you with the expense detail. The majority $7.7 million year-over-year increase in expenses was due to higher compensation and benefits costs. Salaries and employer taxes and benefits were up $3 million and reflect the rise in headcount and the wage rate increases affected the first of the year. Our headcount increased by 56 year-over-year with the vast majority sitting in technology and customer facing positions.

The variable bonus accrual which is tied directly to operating performance with $1.7 million higher. Several important infrastructure projects are driving the year-over-year growth in professional and consulting fees and the increase in third-party clearing costs associated with the growth in our Open Trading accounts for the variance in general and administrative expenses. Given the growing momentum in the business and expectation that we will invest in additional staff over the second half of the year, we are updating our full year 2016 expense guidance and now believe expenses will range from $178 million to $183 million. The timing of the expected headcount increase, level of performance based variable incentive compensation, and foreign currency movements between the dollar and pound sterling among other items could cause variations in the expense outcome.

On slide 11, we provide balance sheet information. Cash and investments as of June 30 were $300 million and trailing 12-month free cash flow reached $105 million. During the second quarter, we paid a quarterly cash dividend of $10 million and repurchase 32,000 shares at a cost of $4.2 million under our share buyback program. As of June 30, approximately $20 million was available for future repurchases under the program. We have no bank debt outstanding and didn't borrow against our revolving credit facility. Based on the second quarter results, our Board has approved a $0.26 regular quarterly dividend payable on August 25 to record holders on August 11. Now let me turn the call back to Rick for some closing comments.

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

Thank you, Tony. Our second quarter results reflect accelerating adoption rates for e-trading and credit products combined with some market volumes. Business momentum continues in Europe and we believe we are on the right track for more meaningful earnings contribution from the region. Open Trading is leading the charge for alternative sources of liquidity in credit markets through all-to-all trading.

Operating leverage is readily apparent in our business model as topline revenue growth drives attractive earnings momentum. Now, I would be happy to open the line for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Chris Shutler, William Blair.

Chris Shutler - *William Blair - Analyst*

First on the high-yield market share gains, I mean, they've been really strong now for a few quarters in a row, Open Trading really seems to be shining there. So I know it's a market that's even more liquidity constrained than high-grade, there are fewer dealers, maybe just walk us through what you think has been going on in high-yield over the last few quarters and to what extent do you think the pick-up in share is attributable to ETF market makers and what's been going on in the ETF market?

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

Sure, happy to take that Chris. I think it's a combination of factors. First, as you point out, high-yield is a less liquid product area and arguably an area where Open Trading can add even more value and you see that coming through in the transaction cost savings numbers that I mentioned in the prepared remarks today, which are quite meaningful to our clients and in fact, there are many open trades that we complete where the initial inquiry does not receive any dealer responses.

So what we're seeing is the less liquid the product area happens to be, the more value clients see in Open Trading and we think that there is no doubt that, that's part of what's driving high-yield market share increases. As we've also said in prior calls and as you point out, growth in ETFs is aligned with our business model because the vast majority of EFT market participants transact most of their volume electronically. So as we continue to see the shift toward ETF assets under management, it does improve the market share results in high-yield and other products. So that undoubtedly is another contributing factor to the strong gains in high-yield market share.

And finally, I think the third factor is just growing participation. We talk extensively about the cross-selling efforts that we have in the Company to make sure that our clients that have historically seen good results and benefits from high-grade trading are doing the same in EM and high-yield and now in Eurobonds. So the third factor is we just have many more clients trading high-yield today than we did a year ago.

Chris Shutler - *William Blair - Analyst*

Okay, makes sense, thanks. And then, Rick I'm just -- stepping back, how is MarketAxess working to address the pre-trade transparency issue, which I know is top of mind for a lot of people. I mean it seems to me that even in Open Trading, the dealers are a very integral part of that ecosystem. The buy side for the most part isn't ready to start making prices without receiving quotes from the dealers, you just mentioned maybe not all the time particularly in high-yield, but just maybe give me your thoughts there on how you're working to address that issue?

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

Sure, two or three things I'd point out. First, we were the first trading platform to fully integrate TRACE data into our high-grade platform dating back to 2002 when TRACE started. We've now obviously done that for high-yield as well. So all available TRACE prints are fully visible pre-trade to all dealers and clients on the platform.

Secondly, we have worked very hard over the last 12 to 18 months to enhance the European system with Trax data and this was one of the primary benefits in acquiring Trax a little over three years ago is being able to deliver price discovery tools to our dealer and investor clients directly on the trading platform. So all available regulatory trade reports are now integrated with the trade system in the US through TRACE and in Europe through Trax.

As a final piece, we're aggregating all data sources that we have to display a composite price across more and more credit securities that is also available pre-trade. So, we have a growing base of data because of the growing market share on the trading platform and we combine that with the TRACE and Trax data and quotes that are available on the system and we create a composite price that is designed to help investors and dealers have a starting point for where the mid-market is likely to be in a host of credit securities.

Chris Shutler - *William Blair - Analyst*

And then last one, if you break down your market share gains into sub categories, so I don't know how you do it, less than [a million, somewhere between a million and five] and then the block trades, how would we see those market share gains trending by different buckets? Just any color there on where the growth is coming from would help?

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

Chris, its Tony. On the market share gains, whether you're looking by year-over-year where we picked up market share in high-grade year-over-year or you're looking at it sequentially. Regardless of how you look at it, we are picking up market share across all size buckets and quite honestly, where it was more noticeable sequentially was in TRACE sizes $1 million and over and block trades. That's where it was more noticeable, but we are picking up market share across all categories and we have that ability with high-grade, a little bit to a lesser extent with high-yield to get more granular, but it is across all trade sizes.

Operator

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Picking up on your comments to that last question and talking about block trading, as we look at the competitors that are out there and trying to make a push into this space, it seems like most of them are focused on the block trading experience. Can you just talk about some of the solutions that you're putting out there for block trading and maybe how they are differentiated versus some of these competitors?

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

I'm happy to, it's been a large area of investment for us over the last six to nine months to enhance our Open Trading protocols with solutions that are designed to limit information leakage for dealers and investors for block trades. And we are seeing growing usage of both Client Axes and Private Axes.

Client Axes allows dealers or investors to post access to the communities that they would like to on the platform. The good news in the second quarter is we saw growing usage of Client Axes from the dealer community as an efficient way to get their trade axes and indications out to their clients. We're now increasingly using watchlist, electronic notifications on the system to identify potential trade matches.

Private Axes is something we rolled out during the second quarter and it's in very early stages, but it allows investors or dealers to avail their order blotter in the system in a completely private way so that no one sees those orders unless we can identify and match for them. So obviously, the goal there is to fully eliminate information leakage while allowing clients and dealers to post their access to try to identify a natural match on the other side of the trade.

So the benefit here is that we continue to believe that we have broadest menu of open trading protocols in the business and importantly, the biggest network of clients. So we are around 1,100 active investor and dealer clients on the platform and it is that breadth of participation that creates the content that gives us a much better chance to identifying matches than any of our competitors. So I think it's a combination of the continuing investments that we are making in thoughtful protocols with the direct feedback from our clients and dealers and the vast network of active clients that we have on the MarketAxess system.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Got it. That's helpful and then follow-up question from me. We saw really nice sequential increase in your information post-trade services revenues and it sounds like you are getting some traction with your market data revenues over in Europe. What are your expectations for that going forward? Do you think that this is still the early stages of kind of growing that as a revenue line item?

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

It's a good question and just taking a step back from the information and post-trade, it's just to refresh everybody's memories, but two-thirds of that revenue is data related. So both US and UK data products and about a third of that line item is post-trade transaction recording and matching, which is really tied to fixed income and equity market volumes.

Where we saw the growth is in the data side and a lot of that was Trax driven coming out of Europe. The new contract value in the first half of the year was greater than all of 2015. So we do see some traction there, Trax volume pricing, composite pricing, access to all reference data, those are all contributing to the uplift, but that data revenue, I will caution that it is a combination of subscription revenue and also some one-time revenue.

So there are historical data sets that we sell that would drive one-time revenue and because of that, it's a little bit difficult to predict quarter-to-quarter where that revenue is going, but I will tell you, we do feel better today and we're more optimistic about that line item, about our data business, about our post-trade business. So we do think that we are in a better position than we've been in before and you're seeing it coming through with what we just posted in the second quarter.

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

And Patrick, as you know, we think about the benefits of quality data in two ways. One is the discrete data revenue opportunity that Tony outlined and the other is just making our trading platform much more valuable for our clients. Just in the last three weeks or so, we have released a new market summary page with real-time data from our Trax reporting and matching business that is now the home page for our European trading platform.

And it is drawing a lot of client and dealer interest because it's the best real-time price discovery tool available for European fixed income and we see the benefit there coming through and more clients trading on the platform and growing trade volumes. So I think there's two ways that we're extracting value from the investments that we're making in data, one is discrete revenue and the other is a meaningful contribution to the growth in our trading volumes.

Operator

Kyle Voigt, KBW.

Kyle Voigt - *KBW - Analyst*

So Eurobond activity, just going want to say in Europe, I guess, so Eurobond activity is up substantially and it seems that a large portion of the growth here is just simply market share gains. So just wondering if you give us some more color as to where you believe those market share gains are coming from? Is it primarily from taking share from competitor electronic platforms or is there also growth in electronic penetration in those markets in general?

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

It's really hard to determine Kyle because we don't really see discrete trade data from most of our competitors because they are private companies and they don't provide volume and financial data in the same way that we do. Anecdotally, we think it's probably from taking share from clients. Having said that, we're still optimistic that there's plenty of room for the Eurobond and European fixed income e-share to grow.

And I think the place where we think the e-share is probably most obviously growing in Europe is through emerging markets where client adoption in both hard currency external debt as well as local markets is growing and as I mentioned earlier, that's been a big contributor for us in the growth that we see in our European business.

Kyle Voigt - *KBW - Analyst*

I did want to turn to expenses real quick, but it just looks like your guidance implies a quarterly run rate for the remainder of the year at a level bit lower than the Q2 expense level. Tony, is it fair to think there's a bit of a true-up on this comp in the second quarter?

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

No Kyle. We did update the expense guidance here and you can see where the variances were in the first half of the year in comp and benefits and professional consulting and then the third-party clearing costs and when you look at that midpoint now of the new guidance range, it's up around $8 million from our midpoint of our prior guidance range.

Those big deltas in there, a lot of it is comp and benefits, no true-up in the second quarter, but a lot of it is comp and benefits related. We're hiring at a faster clip. The attrition rate that we've experienced has been lower than what we had originally budgeted. Incentive accrual is running higher than where we were in last year and higher than what we budgeted. That's all on the back of the improved revenue performance. Professional and consulting side, that's where there is a bit of a delta and we do expect that to continue in the second half of the year.

We've got a number of infrastructure projects underway to support our growth and things like a new accounting system, new HR system, new middle and back-office system, new CRM systems. So we're in the middle of a number of implementations right now.

I'll tell you one thing, I [had it in] the prepared remarks, I do, even with the range we provided, there is some variability in there because we just can't predict where in particular where the FX rates are going to go, we can't predict firmly where the variable incentive compensation is going to come out and while we definitely have hiring plans, it's just hard to predict exactly when those bodies will come onboard. So there remains some sensitivity in there.

Kyle Voigt - *KBW - Analyst*

Okay, I actually had a follow-up on just the expenses you mentioned the clearing arrangement I think you have with Pershing for the Open Trading trades where MarketAxess is the counterparty, I believe that's all variable in terms of the cost that you pay to Pershing based on your Open Trading revenue. I guess, can you give us an update on whether or not you're evaluating any alternative options that may be better for MarketAxess from a cost perspective versus the current arrangement?

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

Yes, so Kyle, you're right. Right now, we do clear through a third-party clearing broker and right now -- and we're pretty transparent on costs and we're pretty transparent on the Open Trading revenues. Right now, you see the third-party clearing costs are running around 20% or 21% of our Open Trading revenues.

We are looking at different clearing alternatives and ways of being more efficient and I'll tell you, longer term, we don't believe that costs will scale the way they have or the way they -- what you've seen in the results. We do believe that we can drive down the per ticket fee and we can drive down those clearing costs as a percentage of Open Trading revenue. It's an ongoing process. We're looking at clearing arrangements, we're looking at things like self-clearing, which maybe a longer path, but we do believe that while it may take some time to realize some of these benefits, we do think that we're on a path longer term to driving down those expenses.

Operator

Mike Adams, Sandler O'Neill.

Mike Adams - *Sandler O'Neill - Analyst*

So a question on pricing. I think earlier this month, you guys introduced some pricing changes around Open Trading. Been quite a while since you've modified pricing in anyway. So just kind of curious if you could walk us through why you're making the changes now especially just given the really rapid growth in Open Trading and if you could also outline any changes in customer activity that you've seen here early days?

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

Early days is the right point, Mike. We are assessing the value that we deliver to clients in Open Trading, we are assessing competitor levels as new models have rolled out. We're also assessing the different levels of participation that we see from clients and wanting to make sure that we have room to provide incentives for those clients that are most active providing new liquidity into the system in the marketplace.

So because this is all in such early days, we will continue to tweak pricing and try to end up in exactly the right spot where we've got a long term scalable revenue model and the modest changes that we made recently are in line with that. It's not material in terms of the total fee capture for Open Trading or the system, we're just in early days of refining and tweaking the pricing models for Open Trading.

Mike Adams - *Sandler O'Neill - Analyst*

Got it, thanks Rick. Couple of other housekeeping items here. Tony, when you were discussing the data revenue earlier, you mentioned that sometimes one-time revenue items can move quarter-to-quarter. Were any of those realized in 2Q?

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

Mike, some of it was in Q2 and I would tell you that the majority of what you're seeing in terms of revenue growth would be more subscription-related or sustainable, but there was a portion of that Q2 revenue growth which would be one-time. Having said that, every quarter we have some element of that, but the majority of the increase will be more of a sustainable nature.

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

I'll just add one thing, Mike, one thing that I'm really encouraged about is that when we look at the early subscribers for our enhanced data products in Europe from Trax, they are the largest, most sophisticated players in the credit markets. So the fact that they are seeing value and want to subscribe to those data products gives me great confidence that this will be a growing area for our data revenue in the quarters and years ahead.

Mike Adams - *Sandler O'Neill - Analyst*

Got it, thanks. And are you explicitly charging for the majority of the data revenue now because I know some of it just helps to grow your transaction business. What's the mix today?

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

Mike, there is some -- in some cases we do it and soft dollar might be the wrong word, but in some cases to promote trading on the platform, we do provide access to data. What we're reporting is the hard dollar revenue is what we're reporting in our results, but quite frankly it's promoting more velocity on the platform. If we can do that by providing data, that's the path we're going on. The trading revenue is the more valuable revenue stream for us.

Mike Adams - *Sandler O'Neill - Analyst*

Okay and Tony one last question for you, just thinking about expenses this year and whether we come in at the high-end or the low-end of the range, one of the big factors obviously is going to be the incentive comp. Would you be able to give us that number for 2015 and then where the accruals are in the first half of 2016 just to help us frame it?

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

Mike, you know, I could but I'm not going to, but (multiple speakers). In this case, we are beyond transparent. I will let you do a little bit of work. You can pull open our proxy statement. We do spell out exactly how the incentive bonus accrual -- it's a very simple -- some very simple math behind it. It's a percentage of pre-tax, pre-bonus income finds its way into the incentive bonus accrual and there's no magic or mysteries to how that accrual builds throughout the year.

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

Mike, I'd just expand on that to say, look, our tremendous business growth is benefiting all of our constituents. We are hiring a lot more people to support future growth in existing and new products. We are expanding margins for our shareholders and we're investing more actively than we ever have before for our clients.

So it is really the results that are driving our ability to invest and provide more value to all three of those constituents but remember, a portion of the increase in the bonus accrual this year is because we have a lot more people here and for all the right reasons, we're building more technology solutions than ever before and we have more clients and more products to cover than ever before. So we're very pleased that we're able to invest as actively as we are because of the tremendous results the business has been consistently achieving.

Mike Adams - *Sandler O'Neill - Analyst*

Got it. Tony, I actually have done a little homework on this. So maybe we can share some of those offline, but congrats gentlemen.

Operator

Ashley Serrao, Credit Suisse.

Marcus Carney - *Credit Suisse - Analyst*

This is Marcus Carney standing in for Ashley. I just had a couple questions. One, could you comment on the cross-currents in Europe between the ECB's repurchase program and your efforts to increase liquidity on the European platform?

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

Sure, ECB as you know has been active the last two or three months in their corporate bond purchase program as part of QE and our estimates are consistent with what you've seen in other market reports. We think that it's been averaging somewhere around 6% or 7% of Eurobond volume on average. So it's an ongoing program.

We said last quarter and I'll repeat again, all else equal, it's not positive for market turnover because it's our expectation that the ECB will buy and hold those bonds and they're likely to be held until maturity. So whatever purchases they make are likely to be locked up on their balance sheet.

Having said that, it's not currently an overly large part of the market and we are seeing a pretty significant transition in the way European investors think about e-trade and we're happy that we are out in front of this and post Brexit has been another example where more significant European dealers are altering their business model and not only carrying less inventory for market making than they are used to but they have less people doing it.

And as a result, the solutions that we've been delivering to European clients to give investors their choice of how broadly they want to send their order flow and complementing traditional dealer liquidity with Open Trading solutions is really gaining momentum and so we're excited about that transition and we think that, that factor is much more material than the ECB corporate bond purchase program that's underway.

Marcus Carney - *Credit Suisse - Analyst*

Excellent, thank you. And then with respect to the new initiatives, the munis and the loans. I'm just curious for some color on kind of what early client feedback has been and where you see kind of pools of liquidity building?

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

Yes, the client feedback is good, but as Tony mentioned in his prepared remarks, we're in very early days. Every one of these products, the story has been the same. Signing up a client is just the beginning. Then the technology integration needs to take place, the trader training needs to take place, the behavioral change starts with orders from investors and price responses from dealers and we're on track with where we expected we would be in munis.

We're very pleased that we've got approximately 250 investors on-boarded and very close to 100 muni dealers. [160 firms] have utilized the muni system already in the second quarter. So it's on track and we remain highly confident that the menu of technology solutions that we have successfully delivered for taxable credit products have wide applications in the muni space. So the second half is more about continuing to move forward with onboarding more clients and dealers and getting more orders in the system and we remain optimistic that we can provide real value to our clients in the municipal market.

On leverage loans, we expect to have a pilot version of our leverage loan product available sometime in the third quarter. That is likely to accommodate a single dealer loan orders initially and then we would expect to have a multi-dealer product out sometime in Q4. So again another example of the investments that we're making to broaden the sphere of opportunities that we have available for our shareholders and the product coverage that we have for our clients.

Operator

(Operator Instructions) Hugh Miller, Macquarie.

Hugh Miller - *Macquarie - Analyst*

Just wanted to touch a bit upon -- I really appreciate some of the insight you gave about adoption of Open Trading among top clients. As we think about kind of the third of your top clients that aren't adopting at this point, what's the feedback that you hear in terms of the challenges for them to kind of start to use Open Trading and are there protocols that you can create that would help to improve that or is it more a function of just kind of internal issues at the Company that need to be resolved?

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

I think it's entirely the latter. There is no feedback from clients that would suggest that we have any lack of solutions or protocols to accommodate Open Trading for any credit product and any trade size. It is a material change for investment management. In my opinion Hugh, there are two key things that investors need to accomplish in order to participate actively in Open Trading. The first is the seam that exists between portfolio management and trading historically where the orders are generated by portfolio managers and then [use the] driven orders are delivered to the trading desk and those traders have the responsibility for achieving the best price on those orders.

And as the world is changing, we see investors that are changing that trading process so that they can be more opportunistic in responding to orders in bonds that look like the ones that the portfolio manager would like to buy or sell, but may not be exactly the same bond and the same size. And the early adopters, you see that, that communication and that trading process between portfolio managers and traders has become much more fluent. There's more communications going on. In some cases you see former traders becoming PMs or PMs becoming traders and there is more coordination between the portfolio management effort and trading at the firms that are now able to take advantage of the benefits of Open Trading. We see in our meetings that every firm is working on this, which is why we are optimistic that a year from now, you're going to see a much broader base of participants in Open Trading.

The second factor is really around compliance and control, is that many firms who've had a very strict process around that order blotter, the trades that are conducted, the price delivery to their trade capture and compliant systems, making sure it complies with all the rules that they have in various discrete client portfolios and there is technology work on their part to make sure that as they adjust that trading process, it doesn't break anything in their compliance and control functions and that too is another area where we see significant work going on with the buy side, but it obviously does represent a change in their trading procedures.

Hugh Miller - *Macquarie - Analyst*

Great, that's very, very helpful insight Rick, appreciate it. And then I guess one other from me, just in terms of obviously early days with the muni initiative and I appreciate some of the update on the expectations for the roll out of leverage loans. As we think about the competitive landscape in munis and you guys now kind of pushing out a product, are you seeing any change in -- from the competitors in terms of their product offering and whether or not they are trying to look at your platform potentially trying to mimic services and things like that or has there not been much of a change in the competitive landscape?

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

We don't see much of a change. I think as we've mentioned in prior calls, we see a couple of things. We see messaging services available in the institutional market that are designed to help people try to find each other [within] generally manual means of execution and post-trade and then as you know, Hugh, there are three or four retail platforms that are active in munis that generally have live levels available for trading but in much smaller trade sizes and generally wider bid offer. So those are the two things that we see in the competitive landscape in munis, but we have not seen any real change in that picture since we announced our plans to move into the muni market six or eight months ago.

Operator

Thank you. At this time, I see no other questions in queue. I'd like to turn it to Mr. McVey for any closing comments.

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

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

Operator

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