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MiFID II Proposals: Perspective from MarketAxess

London and Brussels – Tuesday 13th September, 2011 – MarketAxess Holdings Inc. (Nasdaq; MKTX), the operator of a leading electronic trading platform for U.S. and European high-grade corporate bonds, emerging markets bonds and other fixed income securities, reiterates its views on the range of proposals outlined in the Markets in Financial Instruments Directive II (MiFID II), which is scheduled to be finalized in October.

MarketAxess believes that:

- the introduction of a consolidated trade tape for the European over-the-counter markets would enhance price transparency and facilitate measurement of best execution;
- multi-dealer electronic trading venues can improve market efficiency through enhanced transparency and increased competition.

We have concerns that:

- a prescriptive pre-trade transparency regime in OTC markets would not provide any meaningful additional price transparency;
- a consolidated tape run by a single or competing entity could lead to conflicts of interest; and
- divergent regulatory standards for derivatives trading between Europe and the US would be harmful to investors.

Consolidated Tape

MarketAxess is a strong believer in the introduction of a consolidated trade tape. Experience in the U.S. shows that an appropriately administered consolidated trade tape increases price transparency without harming liquidity. In addition, it provides a tool for measuring best execution in OTC markets.

Pre- trade transparency

We do not believe that a prescriptive regime in over-the-counter (OTC) markets, requiring publication of pre-trade data in a continuous manner, would provide any meaningful additional price transparency over and above that provided by a real-time consolidated trade tape. It is our experience that larger, institutional size trades are more effectively conducted on a request-for-quote (RFQ) basis.

In less liquid markets, where the range of instruments traded is numerous but the volume in each is low, participants are not generally prepared to publish pre-trade information on larger trade sizes or to make pre-trade prices executable.

Post-trade transparency

MarketAxess supports the European Commission's objective of improving post-trade transparency and thinks that an appropriate benchmark when considering the timing for publication of trade information in the fixed income markets would be the 15 minute reporting deadline adopted for FINRA's (“Financial Industry Regulatory Authority”) TRACE (“Trade Reporting and Compliance Engine”) tape in the U.S. However, we believe that a mechanism needs to be included that prevents trades that might have market impact from being immediately disseminated with full trade details.

Electronic trade execution

MarketAxess supports the European Commission's approach that requires greater use of electronic trading venues. MarketAxess believes that multi-dealer venues improve market efficiencies through enhanced transparency and increased competition. Our detailed, quantifiable analysis demonstrates that in less liquid markets, such as corporate bonds, investors receive a better price of execution when a larger group of dealers are put into competition. As such we recommend that for more standardized OTC transactions, the venue of choice should be a multi-lateral trading facility (MTF).

Regulatory divergence

We have serious concerns that the introduction of organized trading facilities (OTFs) may create divergent regulatory regimes for derivatives trading in Europe and the U.S., which could lead to regulatory arbitrage. In the US, standardized derivatives will only be able to trade on an exchange or a swap execution facility ("SEF"). For example, although in the U.S. it does not appear that the SEF definition will allow for single dealer venues, such venues could be permitted under MiFID II.

Conclusion

MarketAxess supports the European Commission in its aim to bring greater transparency to the over-the-counter markets and we believe that greater use of electronic trading venues is central to achieving this. Based on our experience of the U.S. over-the-counter markets, we also believe that the introduction of a consolidated trade tape will provide a key benchmark against which best execution can be measured in these markets.

Through our detailed research and analysis, we have been able to derive statistically robust data to support the advantages of electronic trading to achieve greater price transparency and efficiency of execution.

About MarketAxess

MarketAxess operates a leading electronic trading venue that enables investment industry professionals to efficiently trade corporate bonds and other types of fixed-income cash and derivative instruments. Over 800 institutional investors are active users of our trading venue, accessing the global liquidity provided by 81 broker-dealer clients. MarketAxess also offers a number of trading-related products and services.

Our clients are located in Europe, Asia, North America and South America. Our institutional investor clients are investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios, hedge funds and sovereign wealth funds. European clients are located in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK.

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