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SECURITIES AND EXCHANGE COMMISSION
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Annual Audited Report

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PART III

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Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/15 AND ENDING 12/31/2015
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: MarketAxess Corporation

| OFFICIAL USE ONLY |
|-------------------|
| FIRM I.D. NO. |

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

299 Park Avenue, 10th fl

New York NY 10171
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Christopher Gerosa 212-813-6343
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP

(Name - if individual, state last, first, middle name)

300 Madison Avenue New York NY 10017
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

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|-----------------------|
| |

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

Handwritten initials and date: 3/1

OATH OR AFFIRMATION

I, Antonio L. DeLise, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MarketAxess Corporation, as of December 31, 2015, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:


Signature
Chief Financial Officer
Title


Notary Public

ELIZABETH A FARRELL
Notary Public, State of New York
No. 01FA6147437
Qualified in New York County
Commission Expires June 5, 2018

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Index
December 31, 2015

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Report of Independent Registered Public Accounting Firm

To the Board of Directors of MarketAxess Corporation:

In our opinion, the accompanying balance sheet and the related statements of operations, changes in shareholder's equity and cash flows present fairly, in all material respects, the financial position of MarketAxess Corporation at December 31, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Supplementary Schedule I is supplemental information required by Rule 17a-5 under the Securities and Exchange Act of 1934. The supplemental information is the responsibility of the Company's management. The supplemental information has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities and Exchange Act of 1934. In our opinion, the information contained in Supplementary Schedule I is fairly stated, in all material respects, in relation to the financial statements as a whole.

PricewaterhouseCoopers LLP

February 25, 2016

MarketAxess Corporation
(A wholly owned subsidiary of MarketAxess Holdings Inc.)
Statement of Financial Condition
December 31, 2015

Assets

| | |
|--|-----------------------|
| Cash and cash equivalents | \$ 109,361,974 |
| Securities purchased under agreements to resell with affiliates | 4,223,410 |
| Deposit with clearing broker | 500,000 |
| Accounts receivable, including accounts receivable from affiliates of \$198,807, net of allowance of \$109,033 | 35,350,418 |
| Equipment, net of accumulated depreciation of \$18,523,133 | 7,759,347 |
| Software development costs, net of accumulated amortization of \$41,893,241 | 10,771,044 |
| Prepaid expenses and other assets | 2,998,611 |
| Deferred tax assets, net | 1,245,301 |
| Total assets | \$ 172,210,105 |

Liabilities and Shareholder's Equity

Liabilities

| | |
|--|-------------------|
| Accrued employee compensation | \$ 18,347,656 |
| Deferred revenue | 1,414,842 |
| Accounts payable and other liabilities, including accounts payable to affiliates of \$14,552,662 | 17,815,946 |
| Total liabilities | 37,578,444 |

Shareholder's Equity

| | |
|---|-----------------------|
| Common stock, \$0.01 par value, 1,000 shares authorized, issued and outstanding | 10 |
| Additional paid-in-capital | 80,088,989 |
| Retained earnings | 54,542,662 |
| Total shareholder's equity | 134,631,661 |
| Total liabilities and shareholder's equity | \$ 172,210,105 |

The accompanying notes are an integral part of these financial statements.

MarketAxess Corporation
(A wholly owned subsidiary of MarketAxess Holdings Inc.)
Statement of Operations
Year Ended December 31, 2015

| | |
|---|-----------------------------|
| Revenues | |
| Commissions | \$ 248,042,774 |
| Information services | 7,759,341 |
| Other, including \$275,960 from affiliates | 1,879,535 |
| Total revenues | <u>257,681,650</u> |
| Expenses | |
| Employee compensation and benefits | 44,601,442 |
| Depreciation and amortization | 12,307,679 |
| Technology and communications | 14,164,881 |
| Professional and consulting fees | 4,315,091 |
| Marketing and advertising | 3,446,392 |
| Occupancy | 2,071,968 |
| Service agreement fees to affiliates | 26,353,235 |
| General and administrative | 6,424,098 |
| Total expenses | <u>113,684,786</u> |
| Income before provision for income taxes | 143,996,864 |
| Provision for income taxes | 54,061,100 |
| Net Income | <u>\$ 89,935,764</u> |

The accompanying notes are an integral part of these financial statements.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Statement of Changes in Shareholder's Equity
Year Ended December 31, 2015

| | <u>Common Stock</u> | | <u>Additional Paid- in Capital</u> | <u>Retained Earnings</u> | <u>Total Shareholder's Equity</u> |
|---|---------------------|---------------|--|------------------------------|---|
| | <u>Shares</u> | <u>Amount</u> | | | |
| Balance, December 31, 2014 | 1,000 | \$ 10 | \$ 77,272,559 | \$ 44,606,898 | \$ 121,879,467 |
| Dividends paid to MarketAxess Holdings, Inc. | - | - | - | (80,000,000) | (80,000,000) |
| Excess tax benefits from stock-based compensation | - | - | 2,816,430 | - | 2,816,430 |
| Net Income | - | - | - | 89,935,764 | 89,935,764 |
| Balance, December 31, 2015 | 1,000 | \$ 10 | \$ 80,088,989 | \$ 54,542,662 | \$ 134,631,661 |

The accompanying notes are an integral part of these financial statements.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Statement of Cash Flows
Year Ended December 31, 2015

| | |
|---|-------------------------------|
| Cash flows from operating activities | |
| Net income | \$ 89,935,764 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization | 12,307,679 |
| Deferred tax assets, net | (971,954) |
| Provision for bad debts | 205,028 |
| Changes in operating assets and liabilities: | |
| (Increase) in accounts receivable | (3,459,939) |
| (Increase) in prepaid expenses and other assets | (743,468) |
| Increase in accrued employee compensation | 1,942,537 |
| (Decrease) in deferred revenue | (132,658) |
| (Decrease) in accounts payable and other liabilities | (25,481,123) |
| Net cash provided by operating activities | <u>73,601,866</u> |
| Cash flows from investing activities | |
| Purchases of equipment | (4,063,648) |
| Capitalization of software development costs | (7,495,550) |
| Net cash used in investing activities | <u>(11,559,198.00)</u> |
| Cash flows from financing activities | |
| Securities sold under agreements to resell with MarketAxess Holdings Inc. | 8,322,689 |
| Dividends paid to MarketAxess Holdings Inc. | (80,000,000) |
| Excess tax benefits from stock-based compensation | 2,816,430 |
| Net cash used in financing activities | <u>(68,860,881)</u> |
| Net (decrease) in cash and cash equivalents | (6,818,213) |
| Cash and cash equivalents | |
| Beginning of year | 116,180,187 |
| End of Year | <u>\$ 109,361,974</u> |
| Supplemental cash flow information | |
| Cash paid during the year for income taxes | \$ 680,854 |

The accompanying notes are an integral part of these financial statements.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Notes to Financial Statements
December 31, 2015

1. Organization and Principal Business Activity

MarketAxess Corporation (“the Company”) was incorporated in Delaware on September 12, 1997, and operates an electronic trading platform for corporate bonds and other types of fixed-income instruments through which the Company’s institutional investor clients can access liquidity provided by its broker-dealer and other institutional clients. The Company’s multi-dealer trading platform allows its institutional investor clients to simultaneously request competitive, executable bids or offers from multiple broker-dealers, and to execute trades with the broker-dealer of their choice. The Company’s trading platform provides access to global liquidity in U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, credit derivatives and other fixed-income securities. The Company also executes certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller in matching back-to-back trades which are then settled through a third-party clearing broker. The Company provides fixed-income market data, analytics and compliance tools that help its clients make trading decisions. The Company is a wholly-owned subsidiary of MarketAxess Holdings Inc. (the “Parent”), which is a publicly traded enterprise listed on the NASDAQ Global Select Market under the symbol MKTX.

The Company is a broker-dealer registered with the U.S. Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”).

2. Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents includes cash and money market instruments that are primarily maintained at one major global bank. Given this concentration, the Company is exposed to certain credit risk in relation to its deposits at this bank. The Company defines cash equivalents as short-term interest-bearing investments with maturities at the time of purchase of three months or less.

Investments, at Fair Value

Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” A three-tiered hierarchy for determining fair value has been established that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as Level 1 (unadjusted quoted prices for identical assets or liabilities in active markets), Level 2 (inputs that are observable in the marketplace other than those inputs classified in Level 1) and Level 3 (inputs that are unobservable in the marketplace). The Company’s financial assets measured at fair value on a recurring basis consist of money market instruments and securities purchased under agreements to resell. As of December 31, 2015 and during the year ended, the Company’s money market instruments of \$49,652,022 and the Company’s securities purchased under agreements to resell of \$4,223,410, respectively, were classified as Level 1. These financial instruments are short-term in nature and the carrying amounts reported on our Statement of Financial Condition approximate fair value.

Securities Purchased Under Agreements to Resell

In 2013, the Company entered into reverse repurchase agreements with the Parent. The reverse repurchase agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. These agreements are collateralized by corporate bonds with varying maturities through February 2016. There are no amounts netted in the Statement of Financial Condition. The fair value of the collateral held by the Parent as of December 31, 2015 was \$4,082,716.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Notes to Financial Statements, continued
December 31, 2015

Allowance for Doubtful Accounts

All accounts receivable have contractual maturities of less than one year and are derived from trading-related fees and commissions and revenues from products and services. The Company continually monitors collections and payments from its customers and maintains an allowance for doubtful accounts. The allowance for doubtful accounts is based upon the historical collection experience and specific collection issues that have been identified. Additions to the allowance for doubtful accounts are charged to bad debt expense, which is included in general and administrative expenses in the Company's Statement of Operations.

Deposit with Clearing Broker

The deposit with a clearing broker consists of cash on deposit with a broker-dealer with whom the Company maintains a securities clearing agreement.

Depreciation

Equipment is carried at cost less accumulated depreciation. The Company uses the straight-line method of depreciation over three or five years.

Software Development Costs and Amortization

The Company capitalizes certain costs associated with the development of internal use software, including among other items, employee compensation and related benefits and third party consulting costs, at the point at which the conceptual formulation, design and testing of possible software project alternatives have been completed. Once the product is ready for its intended use, such costs are amortized on a straight-line basis over three years. The Company reviews the amounts capitalized for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable.

Revenue Recognition

The majority of the Company's revenues are derived from commissions for trades executed on its platform and distribution fees that are billed to its broker-dealer clients on a monthly basis. The Company also derives revenues from information services, telecommunications line charges to broker-dealer clients, broker-dealer set-up fees and investment income.

Commissions are generally calculated as a percentage of the notional dollar volume of bonds traded on the platform and vary based on the type, size, yield and maturity of the bond traded. Under the Company's transaction fee plans, bonds that are more actively traded or that have shorter maturities are generally charged lower commissions, while bonds that are less actively traded or that have longer maturities generally command higher commissions. For trades that the Company executes between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller, the Company earns the commission through the difference in price between the two matched principal trades. Fee programs for certain products include distribution fees which are recognized monthly.

The Company generates revenues from information services provided to our broker-dealer clients, institutional investor clients and data-only subscribers. Information services are invoiced monthly, quarterly or annually. When billed in advance, revenues are deferred and recognized monthly on a straight-line basis.

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Notes to Financial Statements, continued
December 31, 2015

and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized against deferred tax assets if it is more likely than not that such assets will not be realized in future years. The Company recognizes interest and penalties related to unrecognized tax benefits in general and administrative expenses in the Statement of Operations.

The Company files consolidated federal and combined state and local income tax returns with its Parent and U.S. affiliates. Pursuant to a tax sharing agreement between the Company and the Parent income tax expense recorded by the Company is determined on a separate company basis.

Stock-Based Compensation for Employees

The Company's employees participate in the stock incentive plans of the Parent. The Company measures and recognizes compensation expense for all share-based payment awards based on their estimated fair values measured as of the grant date. These costs are recognized as an expense in the Statement of Operations over the requisite service period, which is typically the vesting period, with an offsetting liability to the Parent.

Use of Estimates

The preparation of the Company's financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Credit Risk

The Company acts as a matched principal counterparty in certain transactions that the Company executes between clients. The Company acts as an intermediary in these transactions by serving as counterparty to both the buyer and the seller in trades which then settle through a third-party clearing broker. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded.

The Company is exposed to credit and performance risks in its role as a matched principal trading counterparty to its clients executing bond trades on its platform, including the risk that counterparties owe the Company money, securities or other assets will not perform their obligations. These parties may default on their obligations to the Company due to bankruptcy, lack of liquidity, operational failure or other reasons. Adverse movements in the prices of securities that are the subject of these transactions can increase the Company's risk. Where the unmatched position or failure to deliver is prolonged, there may also be regulatory capital charges required to be taken by the Company. There can be no assurance that the policies and procedures the Company uses to manage this credit risk will effectively mitigate the credit risk exposure.

Cash and cash equivalents includes cash and money market instruments that are primarily maintained at one major global bank. Given this concentration, the Company is exposed to certain credit risk in relation to the Company's deposits at this bank. As of December 31, 2015, the Company had a cash balance that exceeded the Federal Deposit Insurance Corporation limit of \$250,000.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Notes to Financial Statements, continued
December 31, 2015

Recent Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2015-14, "Revenue from Contracts with Customers", which will replace most of the existing revenue recognition guidance in GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The ASU will be effective for the Company beginning January 1, 2018 and allows for both retrospective and prospective methods of adoption. The Company is in the process of determining the method of adoption and assessing the impact of this ASU on the Company's Financial Statements.

3. Net Capital and Customer Protection Requirements

Pursuant to the Uniform Net Capital Rule under the Securities Exchange Act of 1934, the Company is required to maintain minimum net capital, as defined, equal to the greater of \$250,000 or 6 2/3% of aggregate indebtedness, as defined. As of December 31, 2015, the Company had net capital of \$75,373,205 which exceeded its required net capital of \$2,505,231 by \$72,867,974. The Company's ratio of aggregate indebtedness to net capital was 0.50 to 1.

The Company claims exemption from SEC Rule 15c3-3(k)(2)(ii), as it does not hold customer securities or funds on account, as defined.

4. Equipment

Equipment is comprised of the following:

| | |
|---|---------------------|
| Software licenses, computer and related equipment | \$ 10,805,666 |
| Office hardware | 15,476,814 |
| Accumulated depreciation | <u>(18,523,133)</u> |
| Total equipment, net | <u>\$ 7,759,347</u> |

For the year ended December 31, 2015 depreciation expense was \$5,380,177.

5. Software Development Costs

Software development costs are comprised of the following:

| | |
|---------------------------------------|----------------------|
| Software development costs | \$ 52,664,285 |
| Accumulated amortization | <u>(41,893,241)</u> |
| Total software development costs, net | <u>\$ 10,771,044</u> |

For the year ended December 31, 2015 software development costs of \$7,107,207 were capitalized and amortization expense was \$6,927,502. Non-capitalized software costs and routine maintenance costs are expensed as incurred and are included in employee compensation and benefits and professional and consulting fees in the Statement of Operations, respectively.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Notes to Financial Statements, continued
December 31, 2015

6. Income Taxes

The provision for income taxes included in the Statement of Operations is as follows:

| | |
|----------------------------|----------------------|
| Current: | |
| Federal | \$ 44,047,502 |
| State and local | 8,169,123 |
| Total current provision | <u>52,216,625</u> |
| Deferred: | |
| Federal | 1,596,371 |
| State and local | 248,104 |
| Total deferred provision | <u>1,844,475</u> |
| Provision for income taxes | <u>\$ 54,061,100</u> |

The difference between the Company's reported provision for income taxes and the U.S. federal statutory rate of 35% is as follows:

| | | |
|---|----------------------|--------------|
| Federal tax at statutory rate | \$ 50,398,901 | 35.0% |
| State and local taxes, net of federal benefit | 5,474,247 | 3.8% |
| Other, net | (1,812,048) | (1.3%) |
| Provision for income taxes | <u>\$ 54,061,100</u> | <u>37.5%</u> |

The following is a summary of the Company's net deferred tax assets:

| | |
|----------------------------------|---------------------|
| Net operating loss carryforwards | \$ 2,579,652 |
| Stock-based compensation | 3,836,031 |
| Total deferred tax assets | <u>6,415,683</u> |
| Depreciation and amortization | (5,151,930) |
| Other | (18,452) |
| Deferred tax assets, net | <u>\$ 1,245,301</u> |

In 2001, the Company had an ownership change within the meaning of Section 382 of the Internal Revenue Code. As of December 31, 2015, the Company had restricted U.S. federal net operating loss carryforwards of \$6,717,517, which begin to expire in 2021. The Company's net operating loss carryforwards may be subject to additional annual limitations if there is a 50% or greater change in the Company's ownership, as determined over a rolling three-year period. As of December 31, 2015, the Company had state net operating loss carryforwards of \$4,350,466 which expire in 2017.

The Company or Parent files U.S. federal, state and local income tax returns. Income tax returns for New York City (through 2003) and state (through 2009) and Connecticut state (through 2003) tax returns have been audited. Examinations of the Parent's federal tax return for 2011 and 2012 and New York state franchise tax returns for 2010 through 2013 are currently underway. The Company cannot estimate when the examinations will conclude or the impact such examinations will have on the Company's financial statements, if any.

There was no change in the unrecognized tax benefits balance of \$264,718 during the year ended December 31, 2015.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Notes to Financial Statements, continued
December 31, 2015

7. Affiliate transactions

The Company allocates total compensation costs for legal and compliance, finance and accounting, sales and marketing, IT and trade support and general management personnel to an affiliate. The allocated costs are based on an internal methodology and amounted to \$1,244,578 for the year ended December 31, 2015. The amount due from the affiliate was \$194,548 as of December 31, 2015 and is included in accounts receivable on the statement of financial condition.

The Company incurred allocated expenses from the Parent including occupancy, utilities and office maintenance, audit, insurance and depreciation and amortization of leasehold improvements and furniture and fixtures based on an internal methodology. The allocated costs were \$3,121,105 for the year ended December 31, 2015. The amount due to the Parent was \$6,570,588 and is primarily comprised of federal and income state taxes payable to the Parent as of December 31, 2015 and is included in accounts payable and other liabilities on the statement of financial condition.

Pursuant to an intermediary services agreement with an affiliate, the Company provides access to its trading platform for certain users located in Canada. In addition, the Company provides sales and customer support, legal and compliance and finance and accounting services to this affiliate. The Company charges the affiliate transaction fees for these services. The transaction fees amounted to \$275,960 and are included in service agreement fees to affiliates in the statement of operations for the year ended December 31, 2015. The amount due to the affiliate was \$76,062 as of December 31, 2015 and is included in accounts payable and other liabilities on the statement of financial condition.

The Company provides support for an overseas affiliate that operates a trading platform for certain users principally located in Europe and Asia. The Company also provides marketing, legal and compliance and finance and accounting services to this affiliate. This affiliate provides intermediary services to the Company for sales and customer support for clients in the region that trade U.S. products. The net costs charged to the Company by this affiliate amounted to \$25,686,171 and are included in service agreement fees to affiliates in the statement of operations for the year ended December 31, 2015. The amount due to the affiliate was \$7,568,554 as of December 31, 2015 and is included in accounts payable and other liabilities on the statement of financial condition.

The Company provides IT services and related infrastructure support to an affiliate at cost. The total charges for these services for the year ended December 31, 2015 were \$383,644 and are included in service agreement fees to affiliates in the statement of operations. The amount due from the affiliate was \$4,259 as of December 31, 2015 and is included in accounts receivable.

An affiliate provides sales and customer support to the Company for certain clients located in Latin America. The related costs charged to the Company by this affiliate amounted to \$1,050,708 and are included in service agreement fees to affiliates in the statement of operations for the year ended December 31, 2015. The amount due to the affiliate was \$217,765 as of December 31, 2015 and is included in accounts payable and other liabilities on the statement of financial condition.

As discussed in Note 2, the Company participates in a tax sharing agreement with its Parent. The amount due to the Parent related to current federal and state income taxes as of December 31, 2015 was \$51,451,783.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Notes to Financial Statements, continued
December 31, 2015

8. Stock-based Compensation Plans

The Company's employees participate in the stock incentive plan of the Parent. Stock compensation expense related to restricted stock and stock options was \$4,619,532 and is included in employee compensation and benefits in the Statement of Operations.

Stock Options

The exercise price of each option granted is equal to the market price of the Parent's common stock on the date of grant. Generally, option grants have provided for vesting over a three or five-year period. Option expiration dates range from seven to ten years from the date of grant. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model ("Black-Scholes"). The determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Parent's stock price as well as assumptions regarding a number of highly complex and subjective variables, including the expected stock price volatility over the term of the awards, the risk-free interest rate, the expected dividend yield rate and the expected term. Expected volatilities are based on historical volatility of the Parent's stock. The risk-free interest rate is based on U.S. Treasury securities with a maturity value approximating the expected term of the option. The dividend yield rate is based on the expected annual dividends to be paid divided by the expected stock price. The expected term represents the period of time that options granted are expected to be outstanding based on actual and projected employee stock option exercise behavior.

The following table represents the assumptions used for Black-Scholes to determine the per share weighted-average fair value for options granted for the year ended December 31, 2015:

| | |
|--|---------|
| Weighted-average expected life (years) | 7.00 |
| Weighted-average risk-free interest rate | 1.91% |
| Weighted-average expected volatility | 56.68% |
| Weighted-average fair value per option granted | \$70.60 |

The following table reports stock option activity for the year ended December 31, 2015 and the intrinsic value as of December 31, 2015:

| | Number of Shares | Weighted Average Exercise Price | Remaining Contractual Term | Intrinsic Value |
|---|-----------------------------|--|---|----------------------------|
| Outstanding at December 31, 2014 | 276,590 | \$ 12.40 | | |
| Granted | 669 | 70.60 | | |
| Exercised | (155,034) | 12.01 | | \$ 11,966,470 |
| Outstanding at December 31, 2015 | <u>122,225</u> | 13.21 | 2.00 | \$ 12,024,100 |
| Exercisable at December 31, 2015 | <u>121,391</u> | 12.87 | 1.96 | \$ 11,984,202 |

The intrinsic value is the amount by which the closing price of the Parent's common stock on December 31, 2015 of \$111.59 or the price on the day of exercise exceeds the exercise price of the stock options multiplied by the number of shares.

As of December 31, 2015, the Company had \$17,009 of total unrecognized compensation cost related to non-vested stock options. That cost is expected to be recognized over a weighted-average period of 1.68 years.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Notes to Financial Statements, continued
December 31, 2015

Restricted Stock and Performance Shares

Restricted stock generally vests over a three or five-year period. Compensation expense is measured at the grant date and recognized ratably over the vesting period. Performance share awards are granted to certain senior managers. Each performance share award is earned or forfeited based on the level of achievement by the Parent of pre-tax operating income on a per share basis before performance share and cash bonus expense. The pay-out ranges from zero to 150% of the performance share award. For each performance share earned, a participant is awarded an equal number of shares of restricted stock. Any restricted stock awarded to a participant vests and ceases to be restricted stock in two equal installments on each of the second and third anniversaries of the date of grant of the applicable performance share award. Compensation expense for performance shares is measured at the grant date and recognized on a graded basis over the vesting period. For 2015, the pay-out achievement was 130% of the performance award.

The following table reports performance share activity for the year ended December 31, 2015:

| | |
|--|---------|
| Share pay-out at plan | 9,814 |
| Actual share pay out in the following year | 12,758 |
| Fair value par share on grant date | \$70.60 |

The following table reports restricted stock and performance share activity during the year ended December 31, 2015:

| | Number of Restricted Shares | Weighted- Average Grant Date Fair Value |
|---|--|--|
| Outstanding at December 31, 2014 | 181,568 | \$ 45.12 |
| Granted | 65,125 | |
| Performance share pay-out | 10,656 | |
| Forfeited | (1,899) | |
| Vested | (87,630) | |
| Outstanding at December 31, 2015 | <u>167,820</u> | <u>\$ 58.61</u> |

As of December 31, 2015, the Company had \$5,956,212 of total unrecognized compensation expense related to non-vested restricted stock and performance awards. That cost is expected to be recognized over a weighted-average period of 1.4 years.

Employee Stock Purchase Plan

During 2015, the Parent established a non-qualified employee stock purchase plan for non-executive employees. Under the plan, participants are granted the right to purchase shares of the Parent's common stock based on the fair market value on the last day of the six-month offering period. On the purchase date, the Parent will grant to the participants a number of shares of common stock equal to 20% of the aggregate shares purchased by the participant. These matching shares vest over a one-year period. For the year ended December 31, 2015, the Parent did not issue any matching shares in connection with the plan and there was no stock-based compensation expense related to this plan recognized by the Company.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Notes to Financial Statements, continued
December 31, 2015

9. Commitments and Contingencies

Credit Agreement

In January 2013, the Parent entered into a three-year credit agreement that provided for revolving loans and letters of credit up to an aggregate of \$50,000,000. In October 2015, the Parent entered into an amended and restated credit agreement (the "Credit Agreement") increasing the borrowing capacity to an aggregate of \$100,000,000, including a \$5,000,000 sub-limit for standby letters of credit. The Credit Agreement will mature in October 2017. As of December 31, 2015, we had \$1,144,876 in letters of credit outstanding leaving \$98,855,124 available to borrow under the Credit Agreement. Subject to certain specified conditions, the Parent is permitted to upsize the borrowing capacity under the Credit Agreement by an additional \$50,000,000. The Credit Agreement is collateralized by first priority pledges (subject to permitted liens) of substantially all of the Parent's personal property assets, including the Parent's equity interest in the Company.

Other

The Company executes certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller in trades which then settle through a third-party clearing broker. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded. Under a securities clearing agreement with a third party clearing broker, the Company maintains a collateral deposit with the clearing broker in the form of cash. The Company is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction or if there is a miscommunication or other error in executing a matched principal transaction. Pursuant to the terms of the securities clearing agreement between the Company and the clearing broker, the clearing broker has the right to charge the Company for losses resulting from counterparty's failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. As of December 31, 2015, the Company had not recorded any liabilities with regard to this right.

10. Deferred Compensation Plans

The Parent offers the Company's employees the opportunity to participate in a defined contribution 401(k) plan (the "401(k) Plan"). Participation in the 401(k) Plan is available to all full time employees of the Company. The Company made \$820,887 in matching contributions to the 401(k) Plan for the year ended December 31, 2015.

In 2015, the Parent adopted a non-qualified deferred cash incentive plan for certain officers and other employees. Under the plan, eligible employees may defer up to 100% of their annual cash incentive pay. The Parent has elected to fund its deferred compensation obligations through a rabbi trust. The rabbi trust is subject to creditor claims in the event of insolvency but such assets are not available for general corporate purposes. Assets held in the rabbi trust are invested in mutual funds, as selected by the participants, which are designated as trading securities and carried at fair value. The initial deferrals occurred in January 2016. Trading gains and losses on securities held in the rabbi trust will be included in other revenues and offsetting increases or decreases in the deferred compensation obligation will be recorded in employee compensation and benefits.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Notes to Financial Statements, continued
December 31, 2015

11. Subsequent Events

The Company evaluated whether any other events or transactions occurred subsequent to the date of Statement of Financial Condition until February 25, 2016, and determined that there were no additional material events or transactions that would require recognition or disclosure in these financial statements.

MarketAxess Corporation
(A wholly-owned subsidiary of MarketAxess Holdings Inc.)
Computation of Net Capital under Rule 15c3-1
of the Securities and Exchange Commission
December 31, 2015

Supplementary Schedule I

| | |
|--|-----------------------------|
| Net Capital | |
| Total shareholder's equity | \$ 134,631,661 |
| Deductions | |
| Nonallowable assets included in the following captions from the statement of financial condition | |
| Accounts receivable, net | 35,350,418 |
| Equipment, net | 7,759,347 |
| Software development costs, net | 10,771,044 |
| Prepaid expenses and other assets | 2,998,611 |
| Deferred tax asset | 1,245,301 |
| Net Capital before haircuts on securities positions | <u>76,506,940</u> |
| Haircut on money market funds included in cash and cash equivalents and reverse repurchase agreements | <u>(1,133,735)</u> |
| Net capital | <u>75,373,205</u> |
| Required net capital (greater of \$250,000 or 6-2/3% of aggregate indebtedness) | 2,505,231 |
| Excess net capital | <u>\$ 72,867,974</u> |
| Aggregate indebtedness included in statement of financial condition | <u>\$ 37,578,444</u> |
| Ratio of aggregate indebtedness to net capital | <u>0.50 to 1</u> |

There are no material differences between the calculation above and the Company's unaudited FOCUS Report as of December 31, 2015.



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MarketAxess Corporation's Exemption Report

MarketAxess Corporation (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). This Exemption Report was prepared as required by 17 C.F.R. § 240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

(1) The Company claimed an exemption from 17 C.F.R. § 240.15c3-3 under the following provision of 17 C.F.R. § 240.15c3-3 (k): (2)(ii).

(2) The Company met the identified exemption provision in 17 C.F.R. § 240.15c3-3(k) throughout the period January 1, 2015 to December 31, 2015 without exception.

MarketAxess Corporation

I, Antonio L. DeLise, swear (or affirm) that, to my best knowledge and belief, this Exemption Report is true and correct.

A handwritten signature in black ink, appearing to read "Antonio L. DeLise".

By: Antonio L. DeLise

Title: Chief Financial Officer

February 25, 2016



Report of Independent Registered Public Accounting Firm

To the Board of Directors of MarketAxess Corporation:

We have reviewed MarketAxess Corporation's assertions, included in the accompanying MarketAxess Corporation's Exemption Report, in which (1) the Company identified 17 C.F.R. § 240.15c3-3(k)(2)(ii) as the provision under which the Company claimed an exemption from 17 C.F.R. § 240.15c3-3 (the "exemption provision") and (2) the Company stated that it met the identified exemption provision throughout the period January 1, 2015 to December 31, 2015 without exception. The Company's management is responsible for the assertions and for compliance with the identified exemption provision throughout the period January 1, 2015 to December 31, 2015.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about the Company's compliance with the exemption provision. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's assertions referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k) (2)(ii) of 17 C.F.R. § 240.15c3-3.

PricewaterhouseCoopers LLP

February 25, 2016



Report of Independent Accountants

To the Board of Directors of MarketAxess Corporation:

In accordance with Rule 17a-5(e)(4) of the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying General Assessment Reconciliation (Form SIPC-7) of the Securities Investor Protection Corporation (SIPC) of MarketAxess Corporation for the year ended December 31, 2015, which were agreed to by MarketAxess Corporation, the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and the Securities Investor Protection Corporation (collectively, the "specified parties") solely to assist the specified parties in evaluating MarketAxess Corporation's compliance with the applicable instructions of Form SIPC-7 during the year ended December 31, 2015. Management is responsible for MarketAxess Corporation's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments on page 1, items 2B and 2F of Form SIPC-7 with the respective cash disbursement records entries, as follows: wire transfer number 5804100212JO dated July 31, 2015 in the amount of \$324,004, and wire transfer number 4986600055JO dated February 25, 2016 in the amount of \$320,200, respectively. No differences noted.
2. Compared the Total Revenues amount reported on page 4 of the audited Form X-17A-5 for the year ended December 31, 2015 to the Total revenue amount of \$257,681,650 reported on page 2, item 2a of Form SIPC-7 for the year ended December 31, 2015. No differences noted.
3. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules as follows:
 - a. Recalculated the mathematical accuracy of the SIPC Net Operating Revenues on page 2, line 2d and the General Assessment @ .0025 on page 2, line 2e of \$257,681,650 and \$644,204, respectively, of the Form SIPC-7. No differences were noted.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Company's preparation of Form SIPC-7 in accordance with the applicable instructions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and the board of directors of MarketAxess Corporation, the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and the Securities Investor Protection Corporation and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

February 25, 2016

**SEC
Mail Processing
Section**

**FEB 26 2016
Washington DC
403**

MarketAxess Corporation

**(A wholly-owned subsidiary of
MarketAxess Holdings Inc.)**

**Financial Statements and
Supplementary Schedules
December 31, 2015**



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www.marketaxess.com

February 25, 2016

SEC
Mail Processing
Section

Securities and Exchange Commission
Registrations Branch
Mail Stop 8031
100 F Street, NE
Washington, DC 20549

FEB 26 2016
Washington DC
403

To Whom It May Concern:

We submit herewith the following reports of MarketAxess Corporation (the "Company"):

- Two copies of the Company's Financial Statements and Supplemental Schedules pursuant to Rule 17a-5 of the Securities and Exchange Commission for the year ended December 31, 2015.
- Two copies of our exemption report and auditor's letter under 17 C.F.R. § 240.15c3-3; following provision 17 C.F.R. § 240.15c3-3 (k):(2)(ii).
- Two copies of our auditor's letter regarding the Form SIPC-7 general assessment.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Christopher Gerosa'.

Christopher Gerosa
Head of Accounting and Finance
Direct: (212) 813-6343