

## Interactive Brokers Group Strength and Security



When placing your money with a broker, you need to make sure your broker is secure and can endure through good and bad times. The [financial statements](#) of Interactive Brokers LLC are available on our website for your review.

Note that Interactive Brokers LLC and its affiliates\* are owned by IBG LLC.

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### Important Strength and Security Facts about Interactive Brokers Group

On a consolidated basis, Interactive Brokers Group (IBG LLC) exceeds \$5 billion in equity capital.

IBG LLC's owners are our public company, Interactive Brokers Group, Inc. (13.6%) and the firm's employees and their affiliates (86.4%). Unlike at most other firms, where management owns a relatively small share, we participate substantially in the downside just as much as in the upside. Because of this vested interest, we run our business conservatively.

We manage our brokerage and market making businesses in separate companies, which are registered with local securities and/or commodities regulators. We maintain strict systematic and procedural separation between the two business lines and we do not commingle or utilize customer segregated assets for proprietary operations. Although certain affiliates of IB trade for their own account, our customer-facing businesses do not conduct proprietary trading.

We hold no material positions in over-the-counter securities or derivatives. We hold no CDOs, MBS or CDS. The gross amount of our portfolio of debt securities, with the exception of U.S. government securities, is less than 10% of our equity capital.

Our positions are marked to market daily and the resulting payables/receivables are reconciled to outside sources automatically.

Our real-time margining system marks all customer positions to market continuously. All orders are credit vetted before being executed and positions in accounts with inadequate margin deposits are liquidated automatically.

We have reported solidly positive earnings for the past 20 consecutive years.

Interactive Brokers LLC is rated 'A-/A-2'; Outlook Stable by Standard & Poor's.

Important Information: The risk of loss in online foreign exchange trading can be substantial. Your capital is at risk and your losses may exceed the value of your original investment. In addition, there is substantial risk of loss in foreign exchange trading when settlement is delayed due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

S&P Credit Ratings Comparison <sup>1</sup>		
Broker Dealer	Rating	Outlook
JPMorgan Chase & Co.	A	Negative
<b>Interactive Brokers</b>	<b>A-</b>	<b>Stable</b>
Bank of America Corporation	A-	Negative
Citigroup Inc.	A-	Negative
Goldman Sachs	A-	Negative
Merrill Lynch & Co., Inc.	A-	Negative
Morgan Stanley	A-	Negative
Jefferies	BBB	Stable

## How We Handle Customer Assets

Customer money is segregated in special bank or custody accounts, which are designated for the exclusive benefit of customers of IB. This protection (the SEC term is "reserve" and the CFTC term is "segregation") is a core principle of securities and commodities brokerage. By properly segregating the customer's assets, if no money or stock is borrowed and no futures positions are held by the customer,

then the customer's assets are available to be returned to the customer in the event of a default by or bankruptcy of the broker.

A portion of customer funds are typically invested in U.S. Treasury securities and FDIC-backed bonds. Although permitted by regulations, given the credit concerns over foreign sovereign debt IB does not currently invest any customer money in money market funds.

As a practice, IB holds an excess amount of its own money in these reserve and segregated accounts to ensure that there is more than enough cash to protect all customers.

## Securities accounts with no borrowing of cash or securities

Securities customer money is protected as follows:

A majority is invested in U.S. Treasury securities, including direct investments in short-term Treasury bills and reverse repurchase agreements, where the collateral received is in the form of U.S. Treasury securities. These transactions are conducted with third parties and guaranteed through a central counterparty clearing house (Fixed Income Clearing Corp., or "FICC"). The collateral remains in the possession of IB and held at a custody bank in a segregated Reserve Safekeeping Account for the exclusive benefit of customers. U.S. Treasury securities may also be pledged to a clearing house to support customer margin requirements on securities options positions.

Customer cash is maintained on a net basis in the reserve accounts, which reflects the long balances of some customers and loans to others. To the extent any one customer maintains a margin loan with IB, that loan will be fully secured by stock valued at up to 140% of the loan. The security of the loan is enhanced by IB's conservative margin policies, which do not allow the borrower to correct a margin deficiency within days, as permitted by regulation. Instead, IB monitors and acts on a real-time basis to automatically liquidate positions and repay the loan. This brings the borrower back into margin compliance without putting IB and other customers at risk.

Current SEC regulations require broker-dealers to perform a detailed reconciliation of customer money and securities (known as the "reserve computation") at least weekly to ensure that customer monies are properly segregated from the broker-dealer's own funds.

A portion is deposited primarily with large US. banks in special reserve accounts for the exclusive benefit of IB's customers. These deposits are distributed across a number of banks with investment-grade ratings so that we can avoid a concentration risk with any single institution. No single bank holds more than 5% of total customer funds held by IB. As of March 31, 2014, the following banks held deposits from IB (this list is subject to change over time at IB's discretion). Certain banks, which are affiliates or branches of foreign financial institutions, are subject to regulatory oversight by the Federal Reserve and the Office of the Comptroller of the Currency.

Branch Banking and Trust Company

Bank of America, N.A.  
Bank of the West  
Citibank, N.A.  
Fifth Third Bank  
HSBC Bank USA, N.A.  
JPMorgan Chase Bank, N.A.  
KeyBank National Association  
Manufacturers and Traders Trust Company (M&T Bank)  
Standard Chartered Bank  
SunTrust Bank  
The Bank of Nova Scotia  
US Bank, N.A.

In order to further enhance our protection of our customers' assets, Interactive Brokers sought and received approval from FINRA (the Financial Industry Regulatory Authority), to perform and report the reserve computation on a daily basis, instead of once per week. IB initiated daily computations in December 2011, along with daily adjustments of the money set aside in safekeeping for our customers. Reconciling our accounts and customer reserves daily instead of weekly is just another way that Interactive Brokers seeks to provide state-of-the-art protection for our customers.

Customer-owned, fully-paid securities are protected in accounts at depositories and custodians that are specifically identified for the exclusive benefit of customers. IB reconciles positions in securities owned by customers daily to ensure that these securities have been received at the depositories and custodians.

## Commodities accounts

Commodities customer money is protected as follows:

A majority is invested in short-term U.S. Treasury securities, which are held at a custody bank in a safekeeping account segregated for the exclusive benefit of customers.

A portion is invested in short-term U.S. Treasury securities and pledged to futures clearing houses to support customer margin requirements on futures and options on futures positions.

A portion is held at commodities clearing banks/brokers in accounts identified as segregated for the benefit of IB's customers to support customer margin requirements.

As prescribed by commodities regulations, customer funds are subject to real-time protection. IB performs a detailed reconciliation of customer equity on a daily basis to ensure that customer monies are properly segregated. This computation is submitted to the regulators daily.

## Securities accounts with margin loans

For customers who borrow money from IB to purchase securities, IB is permitted by securities regulations to utilize for financing purposes up to 140% of the loan value of the stock these customers hold with IB. In simple terms, IB borrows money from a third party (such as a bank or broker-dealer), using the customer's margin stock as collateral, and it lends those funds to the customer to finance the customer's margin purchases. Typically, IB lends out a small portion of the total stock it is permitted to lend out.

As an example, at December 31, 2012, IB lent \$1.3 billion of customers' stock out of the \$13.6 billion made available to it by margin customers.

When IB lends customers' stock, it must put additional money into the special reserve accounts set aside for the benefit of customers. In the example above, the full value of \$1.3 billion of customer stock that was lent was segregated in the special reserve accounts.

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\*Interactive Brokers & sister affiliates.

[1] Ratings were obtained on March 21, 2014 from each firm's website. Supporting documentation for any claims and statistical information will be provided upon request.

Any trading symbols displayed are for illustrative purposes only and are not intended to portray a recommendation.

Interactive Brokers LLC is a member of [NYSE](#), [FINRA](#), [SIPC](#)

<http://www.interactivebrokers.com/en/index.php?f=ibgStrength&p=fin>