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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2019

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission File Number: 001-33440

INTERACTIVE BROKERS GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

30-0390693
(I.R.S. Employer
Identification No.)

One Pickwick Plaza
Greenwich, Connecticut 06830
(Address of principal executive office)

(203) 618-5800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Title of each class	Trading Symbol	Name of the exchange on which registered
Common Stock, par value \$.01 per share	IBKR	The Nasdaq Global Select Market

As of November 7, 2019, 76,748,874 shares of the issuer's Class A common stock, par value \$0.01 per share, and 100 shares of the issuer's Class B common stock, par value \$0.01 per share, were outstanding.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2019

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

Interactive Brokers Group, Inc. and Subsidiaries Condensed Consolidated Statements of Financial Condition (Unaudited)

(in millions, except share amounts)	September 30, 2019	December 31, 2018
Assets		
Cash and cash equivalents	\$ 3,035	\$ 2,597
Cash - segregated for regulatory purposes	8,794	7,503
Securities - segregated for regulatory purposes	21,246	15,595
Securities borrowed	4,010	3,331
Securities purchased under agreements to resell	1,391	1,242
Financial instruments owned, at fair value		
Financial instruments owned	1,694	1,931
Financial instruments owned and pledged as collateral	189	188
Total financial instruments owned, at fair value	1,883	2,119
Receivables		
Customers, less allowance for doubtful accounts of \$85 and \$42 as of September 30, 2019 and December 31, 2018	25,970	27,017
Brokers, dealers and clearing organizations	868	706
Interest	131	141
Total receivables	26,969	27,864
Other assets	476	296
Total assets	\$ 67,804	\$ 60,547
Liabilities and equity		
Short-term borrowings	\$ 15	\$ 17
Securities loaned	3,955	4,037
Financial instruments sold, but not yet purchased, at fair value	977	681
Payables		
Customers	54,474	47,993
Brokers, dealers and clearing organizations	245	298
Affiliate	141	171
Accounts payable, accrued expenses and other liabilities	307	153
Interest	37	41
Total payables	55,204	48,656
Total liabilities	60,151	53,391
Commitments, contingencies and guarantees (see Note 13)		
Equity		
Stockholders' equity		
Common stock, \$0.01 par value per share		
Class A - Authorized - 1,000,000,000, Issued - 76,878,300 and 75,230,400 shares, Outstanding - 76,748,852 and 75,100,952 shares as of September 30, 2019 and December 31, 2018	1	1
Class B - Authorized, Issued and Outstanding - 100 shares as of September 30, 2019 and December 31, 2018	-	-
Additional paid-in capital	930	898
Retained earnings	484	390
Accumulated other comprehensive income, net of income taxes of \$0 and \$0 as of September 30, 2019 and December 31, 2018	(7)	(4)
Treasury stock, at cost, 129,448 and 129,448 shares as of September 30, 2019 and December 31, 2018	(3)	(3)
Total stockholders' equity	1,405	1,282
Noncontrolling interests	6,248	5,874
Total equity	7,653	7,156
Total liabilities and equity	\$ 67,804	\$ 60,547

See accompanying notes to the condensed consolidated financial statements.

Interactive Brokers Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except share or per share amounts)	2019	2018	2019	2018
Revenues				
Commissions	\$ 187	\$ 167	\$ 538	\$ 572
Interest income	468	363	1,308	1,007
Trading gains	7	7	20	32
Other income (loss)	(19)	21	83	121
Total revenues	643	558	1,949	1,732
Interest expense	177	119	512	321
Total net revenues	466	439	1,437	1,411
Non-interest expenses				
Execution, clearing and distribution fees	68	57	192	196
Employee compensation and benefits	67	63	213	201
Occupancy, depreciation and amortization	15	12	43	35
Communications	7	7	19	20
General and administrative	30	25	80	70
Customer bad debt	(2)	(1)	45	2
Total non-interest expenses	185	163	592	524
Income before income taxes	281	276	845	887
Income tax expense	20	18	50	52
Net income	261	258	795	835
Less net income attributable to noncontrolling interests	225	219	678	709
Net income available for common stockholders	\$ 36	\$ 39	\$ 117	\$ 126
Earnings per share				
Basic	\$ 0.46	\$ 0.52	\$ 1.54	\$ 1.73
Diluted	\$ 0.45	\$ 0.51	\$ 1.52	\$ 1.71
Weighted average common shares outstanding				
Basic	76,742,789	74,649,469	75,910,080	72,879,007
Diluted	77,348,976	75,360,089	76,646,487	73,745,640
Comprehensive income				
Net income available for common stockholders	\$ 36	\$ 39	\$ 117	\$ 126
Other comprehensive income				
Cumulative translation adjustment, before income taxes	(6)	(1)	(3)	(14)
Income taxes related to items of other comprehensive income	-	-	-	(1)
Other comprehensive income (loss), net of tax	(6)	(1)	(3)	(13)
Comprehensive income available for common stockholders	\$ 30	\$ 38	\$ 114	\$ 113
Comprehensive income attributable to noncontrolling interests				
Net income attributable to noncontrolling interests	\$ 225	\$ 219	\$ 678	\$ 709
Other comprehensive income - cumulative translation adjustment	(22)	(2)	(11)	(60)
Comprehensive income attributable to noncontrolling interests	\$ 203	\$ 217	\$ 667	\$ 649

See accompanying notes to the condensed consolidated financial statements.

Interactive Brokers Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in millions)	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Net income	\$ 795	\$ 835
Adjustments to reconcile net income to net cash from operating activities		
Deferred income taxes	17	19
Depreciation and amortization	21	18
Amortization of right-of-use assets	15	-
Employee stock plan compensation	43	42
Unrealized (gain) loss on other investments, net	(22)	-
Bad debt expense	45	2
Impairment loss	1	1
Change in operating assets and liabilities		
Securities - segregated for regulatory purposes	(5,651)	853
Securities borrowed	(679)	(594)
Securities purchased under agreements to resell	(149)	1,704
Financial instruments owned, at fair value	250	567
Receivables from customers	1,002	(1,094)
Other receivables	(153)	(24)
Other assets	(148)	7
Securities loaned	(82)	(610)
Securities sold under agreements to repurchase	-	(1,316)
Financial instruments sold, but not yet purchased, at fair value	296	148
Payable to customers	6,481	2,275
Other payables	96	(69)
Net cash provided by operating activities	<u>2,178</u>	<u>2,764</u>
Cash flows from investing activities		
Purchases of other investments	(19)	(21)
Distributions received and proceeds from sales of other investments	4	1
Purchase of property, equipment and intangible assets	(62)	(23)
Net cash used in investing activities	<u>(77)</u>	<u>(43)</u>
Cash flows from financing activities		
Short-term borrowings, net	(2)	13
Dividends paid to stockholders	(23)	(22)
Distributions from IBG LLC to noncontrolling interests	(303)	(299)
Repurchases of common stock for employee tax withholdings under stock incentive plans	(27)	(45)
Proceeds from the sale of treasury stock	26	40
Payments made under the Tax Receivable Agreement	(29)	(28)
Net cash used in financing activities	<u>(358)</u>	<u>(341)</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	<u>(14)</u>	<u>(74)</u>
Net increase in cash, cash equivalents, and restricted cash	1,729	2,306
Cash, cash equivalents, and restricted cash at beginning of period	10,100	8,279
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 11,829</u>	<u>\$ 10,585</u>
Cash, cash equivalents, and restricted cash		
Cash and cash equivalents	3,035	3,062
Cash segregated for regulatory purposes	8,794	7,523
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 11,829</u>	<u>\$ 10,585</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 515</u>	<u>\$ 308</u>
Cash paid for taxes, net	<u>\$ 41</u>	<u>\$ 35</u>
Cash paid for amounts included in lease liabilities	<u>\$ 15</u>	<u>\$ -</u>
Non-cash financing activities		
Issuance of common stock in exchange of member interests in IBG LLC	<u>\$ 1</u>	<u>\$ 94</u>
Redemption of member interests from IBG Holdings LLC	<u>\$ (1)</u>	<u>\$ (94)</u>
Adjustments to additional paid-in capital for changes in proportionate ownership in IBG LLC	<u>\$ 24</u>	<u>\$ 28</u>
Adjustments to noncontrolling interests for changes in proportionate ownership in IBG LLC	<u>\$ (24)</u>	<u>\$ (28)</u>
Non-cash distributions to noncontrolling interests	<u>\$ -</u>	<u>\$ (11)</u>

See accompanying notes to the condensed consolidated financial statements.

Interactive Brokers Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
Nine Months Ended September 30, 2019
(Unaudited)

(in millions, except share amounts)	Class A Common Stock		Additional Paid-In	Treasury	Retained	Accumulated Other Comprehensive	Total Stockholders'	Non-controlling	Total
	Issued	Par							
	Shares	Value	Capital	Stock	Earnings	Income	Equity	Interests	Equity
Balance, January 1, 2019	75,230,400	\$ 1	\$ 898	\$ (3)	\$ 390	\$ (4)	\$ 1,282	\$ 5,874	\$ 7,156
Common stock distributed pursuant to stock incentive plans	905						-		-
Compensation for stock grants vesting in the future			3				3	13	16
Dividends paid to stockholders					(8)		(8)		(8)
Distributions from IBG LLC to noncontrolling interests							-	(60)	(60)
Comprehensive income					49	(1)	48	274	322
Balance, March 31, 2019	75,231,305	\$ 1	\$ 901	\$ (3)	\$ 431	\$ (5)	\$ 1,325	\$ 6,101	\$ 7,426
Common stock distributed pursuant to stock incentive plans	1,625,479						-		-
Compensation for stock grants vesting in the future			2				2	12	14
Repurchases of common stock for employee tax withholdings under stock incentive plans				(27)			(27)		(27)
Sales of treasury stock				27			27	(1)	26
Dividends paid to stockholders					(7)		(7)		(7)
Distributions from IBG LLC to noncontrolling interests							-	(38)	(38)
Adjustments for changes in proportionate ownership in IBG LLC			24				24	(24)	-
Comprehensive income					32	4	36	190	226
Balance, June 30, 2019	76,856,784	\$ 1	\$ 927	\$ (3)	\$ 456	\$ (1)	\$ 1,380	\$ 6,240	\$ 7,620
Issuance of common stock in follow-on offering	21,075						-		-
Common stock distributed pursuant to stock incentive plans	441						-		-
Compensation for stock grants vesting in the future			3				3	10	13
Dividends paid to stockholders					(8)		(8)		(8)
Distributions from IBG LLC to noncontrolling interests							-	(205)	(205)
Comprehensive income					36	(6)	30	203	233
Balance, September 30, 2019	76,878,300	\$ 1	\$ 930	\$ (3)	\$ 484	\$ (7)	\$ 1,405	\$ 6,248	\$ 7,653

Interactive Brokers Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
Nine Months Ended September 30, 2018
(Unaudited)

(in millions, except share amounts)	Class A Common Stock		Additional Paid-In	Treasury	Retained	Accumulated Other Comprehensive	Total Stockholders'	Non-controlling	Total
	Issued	Par							
	Shares	Value	Capital	Stock	Earnings	Income	Equity	Interests	Equity
Balance, January 1, 2018	71,609,049	\$ 1	\$ 832	\$ (3)	\$ 251	\$ 9	\$ 1,090	\$ 5,343	\$ 6,433
Common stock distributed pursuant to stock incentive plans	1,532						-		-
Compensation for stock grants vesting in the future			2				2	12	14
Dividends paid to stockholders					(7)		(7)		(7)
Distributions from IBG LLC to noncontrolling interests							-	(61)	(61)
Comprehensive income					46	1	47	280	327
Balance, March 31, 2018	71,610,581	\$ 1	\$ 834	\$ (3)	\$ 290	\$ 10	\$ 1,132	\$ 5,574	\$ 6,706
Common stock distributed pursuant to stock incentive plans	2,063,810						-		-
Compensation for stock grants vesting in the future			3				3	12	15
Repurchases of common stock for employee tax withholdings under stock incentive plans				(45)			(45)		(45)
Sales of treasury stock				45	(1)		44	(4)	40
Dividends paid to stockholders					(7)		(7)		(7)
Distributions from IBG LLC to noncontrolling interests							-	(189)	(189)
Adjustments for changes in proportionate ownership in IBG LLC			28				28	(28)	-
Comprehensive income					41	(13)	28	152	180
Balance, June 30, 2018	73,674,391	\$ 1	\$ 865	\$ (3)	\$ 323	\$ (3)	\$ 1,183	\$ 5,517	\$ 6,706
Issuance of common stock in follow-on offering	1,537,727		25				25	(25)	-
Common stock distributed pursuant to stock incentive plans	14,770						-		-
Compensation for stock grants vesting in the future			2				2	11	13
Deferred tax benefit retained - follow-on offering			3				3		3
Dividends paid to stockholders					(8)		(8)		(8)
Distributions from IBG LLC to noncontrolling interests							-	(60)	(60)
Comprehensive income					39	(1)	38	217	255
Balance, September 30, 2018	75,226,888	\$ 1	\$ 895	\$ (3)	\$ 354	\$ (4)	\$ 1,243	\$ 5,660	\$ 6,903

See accompanying notes to the condensed consolidated financial statements.

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization of Business

Interactive Brokers Group, Inc. (“IBG, Inc.”) is a Delaware holding company whose primary asset is its ownership of approximately 18.5% of the membership interests of IBG LLC, which, in turn, owns operating subsidiaries (collectively, “IBG LLC”). IBG, Inc. together with IBG LLC and its consolidated subsidiaries (collectively, “the Company”), is an automated global electronic broker specializing in executing and clearing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 125 electronic exchanges and market centers around the world and offering custody, prime brokerage, securities and margin lending services to customers. In the United States of America (“U.S.”), the Company conducts its business primarily from its headquarters in Greenwich, Connecticut and from Chicago, Illinois. Abroad, the Company conducts its business through offices located in Canada, the United Kingdom, Switzerland, India, China (Hong Kong and Shanghai), Japan, and Australia. As of September 30, 2019, the Company had

1,581 employees worldwide.

IBG LLC is a Connecticut limited liability company that conducts its business through its operating subsidiaries (collectively, the “Operating Companies”): Interactive Brokers LLC (“IB LLC”); IBKR Europe S.a.r.l. (“IBEU”); Interactive Brokers (India) Private Limited (“IBI”); Timber Hill LLC (“TH LLC”); Timber Hill Canada Company (“THC”); Interactive Brokers Software Services (India) Private Limited (“IBSSI”); IB Global Investments LLC (“IBGIL”); IB Exchange Corp. (“IBEC”) and its subsidiaries, Interactive Brokers Canada Inc. (“IBC”), Interactive Brokers (U.K.) Limited and its subsidiary, Interactive Brokers (U.K.) Nominee Limited (collectively, “IBUK”), Interactive Brokers Securities Japan, Inc. (“IBSJ”), Interactive Brokers Hong Kong Limited (“IBHK”), Interactive Brokers Australia Pty Limited and its subsidiary, Interactive Brokers Australia Nominees Pty Limited (collectively, “IBA”), IB Business Services (Shanghai) Company Limited (“IBBSS”), IBKR Financial Services AG (formerly Timber Hill Europe AG) and its subsidiary, THLI AG (formerly Timber Hill (Liechtenstein) AG) (collectively, “IBKRFS”), Interactive Brokers Hungary Informatikai Kft (“IBH”), Interactive Brokers Software Services Estonia OU (“IBEST”), Interactive Brokers Software Services Russia (“IBRUS”), Interactive Brokers Corp. (“IB Corp”), Covestor, Inc. and its subsidiary, Covestor Limited (collectively, “Covestor”), and Greenwich Advisor Compliance Services Corp. (“Greenwich Compliance”).

The Company operates in

two business segments: electronic brokerage and market making, both supported by corporate. The Company conducts its electronic brokerage business through certain Interactive Brokers subsidiaries, which provide electronic execution and clearing services to customers worldwide. The Company conducts its market making business principally through its Timber Hill subsidiaries and it currently consists of customer facilitation in products such as CFDs, ETFs and single stock futures, as well as exchange traded market making activities in a few select markets outside the U.S. (See Note 2 - Discontinued Operations and Costs Associated with Exit or Disposal Activities). Corporate enables the Company to operate cohesively and effectively by providing support via development services and control functions to the business segments and also by executing the Company’s currency diversification strategy.

Certain of the Operating Companies are members of various securities and commodities exchanges in North America, Europe and the Asia/Pacific region and are subject to regulatory capital and other requirements (see Note 15). IB LLC, IBC, IBUK, IBSJ, IBHK, IBI and IBA carry securities accounts for customers or perform custodial functions relating to customer securities.

2. Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements are presented in U.S. dollars and have been prepared in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”) and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding financial reporting with respect to Form 10-Q.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s 2018 Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on February 28, 2019. The condensed consolidated financial information as of December 31, 2018 has been derived from the audited financial statements not included herein.

These condensed consolidated financial statements include the accounts of the Company and its consolidated subsidiaries and reflect all adjustments of a normal and recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the periods presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year.

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Principles of Consolidation, including Noncontrolling Interests

These condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries. As sole managing member of IBG LLC, IBG, Inc. exerts control over IBG LLC's operations. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, "Consolidation," the Company consolidates IBG LLC's financial statements and records the interests in IBG LLC that it does not own as noncontrolling interests.

The Company's policy is to consolidate all other entities in which it owns more than 50% unless it does not have control. All inter-company balances and transactions have been eliminated.

Discontinued Operations and Costs Associated with Exit or Disposal Activities

On March 8, 2017, the Company announced its intention to discontinue its options market making activities globally. Additionally, as previously announced, on September 29, 2017 the Company completed the transfer of its U.S. options market making operations to Two Sigma Securities, LLC. The Company also exited the majority of its market making activities outside of the U.S. by December 31, 2017 and will report discontinued operations if it meets the criteria under FASB Topic ASC 205-20, "Discontinued Operations." During the nine months ended September 30, 2019 and 2018, the Company did not incur any additional restructuring costs.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in these condensed consolidated financial statements and accompanying notes. These estimates and assumptions are based on judgment and the best available information at the time. Therefore, actual results could differ materially from those estimates. Such estimates include the allowance for doubtful accounts, valuation of certain investments, compensation accruals, current and deferred income taxes, costs associated with exit or disposal activities, and contingency reserves.

Fair Value

Substantially all of the Company's assets and liabilities, including financial instruments, are carried at fair value based on published market prices and are marked to market, or are assets and liabilities which are short-term in nature and are carried at amounts that approximate fair value.

The Company applies the fair value hierarchy in accordance with FASB ASC Topic 820, "Fair Value Measurement" ("ASC Topic 820"), to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Quoted prices for similar assets in an active market, quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
Level 3	Prices or valuations that require inputs that are both significant to fair value measurement and unobservable.

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are generally classified as Level 1 of the fair value hierarchy. The Company's Level 1 financial instruments, which are valued using quoted market prices as published by exchanges and clearing houses or otherwise broadly distributed in active markets, include active listed stocks, options, warrants, and U.S. and foreign government securities. The Company does not adjust quoted prices for financial instruments classified as Level 1 of the fair value hierarchy, even in the event that the Company may hold a large position whereby a purchase or sale could reasonably impact quoted prices.

Currency forward contracts are valued using broadly distributed bank and broker prices, and are classified as Level 2 of the fair value hierarchy since inputs to their valuation can be generally corroborated by market data. Other securities that are not traded in active markets are also classified as Level 2 of the fair value hierarchy. Level 3 financial instruments are comprised of securities that have been delisted or otherwise are no longer tradable in active markets and have been valued by the Company based on internal estimates.

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Earnings per Share

Earnings per share (“EPS”) is computed in accordance with FASB ASC Topic 260, “Earnings per Share.” Basic EPS is computed by dividing the net income available for common stockholders by the weighted average number of shares outstanding for that period. Diluted EPS is calculated by dividing the net income available for common stockholders by the diluted weighted average shares outstanding for that period. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of shares of common stock estimated to be distributed in the future under the Company’s stock-based compensation plans, with no adjustments to net income available for common stockholders for potentially dilutive common shares.

Stock-Based Compensation

The Company follows FASB ASC Topic 718, “Compensation - Stock Compensation” (“ASC Topic 718”), to account for its stock-based compensation plans. ASC Topic 718 requires all share-based payments to employees to be recognized in the condensed consolidated financial statements using a fair value-based method. Grants, which are denominated in U.S. dollars, are communicated to employees in the year of grant, thereby establishing the fair value of each grant. The fair value of awards granted to employees are generally expensed as follows:

50% in the year of grant in recognition of the plans’ post-employment provisions (as described below) and the remaining 50% over the related vesting period utilizing the “graded vesting” method permitted under ASC Topic 718. In the case of “retirement eligible” employees (those employees older than 59), 100% of awards are expensed when granted.

Awards granted under stock-based compensation plans are subject to the plans’ post-employment provisions in the event an employee ceases employment with the Company. The plans provide that employees who discontinue employment with the Company without cause and continue to meet the terms of the plans’ post-employment provisions will be eligible to earn 50% of previously granted but not yet earned awards, unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of previously granted but not yet earned awards.

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits with banks and all highly liquid investments, with maturities of three months or less, that are not segregated and deposited for regulatory purposes or to meet margin requirements at clearing houses.

Cash and Securities - Segregated for Regulatory Purposes

As a result of customer activities, certain Operating Companies are obligated by rules mandated by their primary regulators to segregate or set aside cash or qualified securities to satisfy such regulations, which have been promulgated to protect customer assets. Securities segregated for regulatory purposes consisted of U.S. government securities of \$3.8 billion and \$4.2 billion as of September 30, 2019 and December 31, 2018, respectively, and securities purchased under agreements to resell consisted of U.S. government securities in the amount of \$17.5 billion and \$11.4 billion as of September 30, 2019 and December 31, 2018, respectively, which amounts approximate fair value. Restricted cash represents cash and cash equivalents that are subject to withdrawal or usage restrictions. Cash segregated for regulatory purposes meets the definition of restricted cash and is included in “cash, cash equivalents and restricted cash” in the condensed consolidated statements of cash flows.

Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned are recorded at the amount of the cash collateral advanced or received. Securities borrowed transactions require the Company to provide counterparties with collateral, which may be in the form of cash, letters of credit or other securities. With respect to securities loaned, the Company receives collateral, which may be in the form of cash or other securities in an amount generally in excess of the fair value of the securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually. The Company’s policy is to net, in the condensed consolidated statements of financial condition, securities borrowed and securities loaned entered into with the same counterparty that meet the offsetting requirements prescribed in FASB ASC Topic 210-20, “Balance Sheet - Offsetting” (“ASC Topic 210-20”).

Securities lending fees received and paid by the Company are included in interest income and interest expense, respectively, in the condensed consolidated statements of comprehensive income.

Interactive Brokers Group, Inc. and Subsidiaries
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Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Securities purchased under agreements to resell and securities sold under agreements to repurchase, which are reported as collateralized financing transactions, are recorded at contract value, which approximates fair value. To ensure that the fair value of the underlying collateral remains sufficient, the collateral is valued daily with additional collateral obtained or excess collateral returned, as permitted under contractual provisions. The Company's policy is to net, in the condensed consolidated statements of financial condition, securities purchased under agreements to resell transactions and securities sold under agreements to repurchase transactions entered into with the same counterparty that meet the offsetting requirements prescribed in ASC Topic 210-20.

Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased, at Fair Value

Financial instrument transactions are accounted for on a trade date basis. Financial instruments owned and financial instruments sold, but not yet purchased are stated at fair value based upon quoted market prices, or if not available, are valued by the Company based on internal estimates (see Fair Value above). The Company's financial instruments pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the financial instruments are reported as financial instruments owned and pledged as collateral in the condensed consolidated statements of financial condition.

Customer Receivables and Payables

Customer securities transactions are recorded on a settlement date basis and customer commodities transactions are recorded on a trade date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including futures contracts transacted on behalf of customers. Securities owned by customers, including those that collateralize margin loans or other similar transactions, are not reported in the condensed consolidated statements of financial condition. Amounts receivable from customers that are determined by management to be uncollectible are recorded as customer bad debt expense in the condensed consolidated statements of comprehensive income.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations include net receivables and payables from unsettled trades, including amounts related to futures and options on futures contracts executed on behalf of customers, amounts receivable for securities not delivered by the Company to the purchaser by the settlement date ("fails to deliver") and cash deposits. Payables to brokers, dealers and clearing organizations also include amounts payable for securities not received by the Company from a seller by the settlement date ("fails to receive").

Investments

The Company makes certain strategic investments related to its business and accounts for these investments (a) under the equity method of accounting as required under FASB ASC Topic 323, "Investments - Equity Method and Joint Ventures" or (b) at fair value or, if the investment in equity securities does not have a readily determinable fair value, at historical cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer in accordance with FASB ASC Topic 321, "Investments in Equity Securities."

Investments accounted for under the equity method, including where the investee is a limited partnership or limited liability company, are recorded at the fair value amount of the Company's initial investment and are adjusted each period for the Company's share of the investee's income or loss. The Company's share of the income or losses from equity method investments is included in other income in the condensed consolidated statements of comprehensive income. The recorded amounts of the Company's equity method investments of \$22 million and \$23 million as of September 30, 2019 and December 31, 2018, respectively, which are included in other assets in the condensed consolidated statements of financial condition, increase or decrease accordingly. Contributions paid to and distributions received from equity method investees are recorded as additions or reductions, respectively, to the respective investment balance.

Investments in equity securities that do not qualify for equity method accounting and do not have readily determinable fair values are recorded at historical cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The recorded amounts of the Company's investments in such equity securities of \$5 million and \$25 million as of September 30, 2019 and December 31, 2018, respectively, are included in other assets in the condensed consolidated statements of financial condition. Investments in equity securities that do not qualify for equity method accounting and have readily determinable fair values are recorded at fair value. The recorded amount of the Company's investment in such equity securities of \$43 million as of September 30, 2019 is included in other assets in the condensed consolidated statements of financial condition. The Company did not have any such investments as of December 31, 2018. Dividends received from

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these investments are included in other income in the condensed consolidated statements of comprehensive income when such dividends are received.

The Company also holds exchange memberships and investments in equity securities of certain exchanges, as required to qualify as a clearing member. Such investments of \$3 million and \$5 million as of September 30, 2019 and December 31, 2018, respectively, are recorded at cost less impairment, and are included in other assets in the condensed consolidated statements of financial condition. Dividends received from these investments are included in other income in the condensed consolidated statements of comprehensive income when such dividends are received.

A judgmental aspect of accounting for investments is evaluating whether a decline in the value of an investment has occurred. The evaluation of an impairment is dependent on specific quantitative and qualitative factors and circumstances surrounding an investment, including recurring operating losses, credit defaults and subsequent rounds of financing. Most of the Company's equity investments do not have readily determinable market values. All investments are reviewed for changes in circumstances or occurrence of events that suggest the Company's investment may not be recoverable. An impairment loss, if any, is recognized in the period the determination is made.

Property, Equipment, and Intangible Assets

Property, equipment, and intangible assets, which are included in other assets in the condensed consolidated statements of financial condition, consist of leasehold improvements, computer equipment, software developed for the Company's internal use, office furniture and equipment.

Property and equipment are recorded at historical cost, less accumulated depreciation and amortization. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over the estimated useful lives of the assets, while leasehold improvements are amortized over the lesser of the estimated economic useful life of the asset or the term of the lease. Computer equipment is depreciated over three to five years and office furniture and equipment are depreciated over five to seven years. Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives of three years, and tested for recoverability whenever events indicate that the carrying amounts may not be recoverable. Qualifying costs for internally developed software are capitalized and amortized over the expected useful life of the developed software, not to exceed three years. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the condensed consolidated statements of financial condition and any resulting gain or loss is recorded in other income in the condensed consolidated statements of comprehensive income. Fully depreciated (or amortized) assets are retired periodically throughout the year.

Leases

On January 1, 2019, the Company adopted FASB ASC Topic 842, "Leases," ("ASC Topic 842") which requires that a lessee recognize in the statement of financial condition a lease liability and a corresponding right-of-use asset, including for those leases that the Company had classified as operating leases. The right-of-use asset and the lease liability were initially measured using the present value of the remaining lease payments. ASC Topic 842 was implemented using a modified retrospective approach which resulted in no cumulative-effect adjustment in the opening balance of retained earnings as of January 1, 2019. As a result, the condensed consolidated statement of financial condition prior to January 1, 2019 was not restated and continues to be reported under FASB ASC Topic 840, "Leases," ("ASC Topic 840"), which did not require the recognition of a right-of-use asset or lease liability for operating leases. As permitted under ASC Topic 842, the Company adopted the following practical expedients: (1) not to reassess whether an expired or non-lease contract that commenced before January 1, 2019 contained an embedded lease, (2) not to reassess the classification of existing leases, (3) not to determine whether initial direct costs related to existing leases should be capitalized under ASC Topic 842, and (4) not to separate lease and non-lease components.

The Company reviews all relevant contracts to determine if the contract contains a lease at its inception date. A contract contains a lease if the contract conveys to the company the right to control the use of an underlying asset for a period of time in exchange for consideration. If the Company determines that a contract contains a lease, it recognizes, in the condensed consolidated statements of financial condition, a lease liability and a corresponding right-of-use asset on the commencement date of the lease. The lease liability is initially measured at the present value of the future lease payments over the lease term using the rate implicit in the lease or, if not readily determinable, the Company's secured incremental borrowing rate. An operating lease right-of-use asset is initially measured at the value of the lease liability minus any lease incentives and initial direct costs incurred plus any prepaid rent.

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The Company's leases are classified as operating leases and consist of real estate leases for office space, data centers and other facilities. Each lease liability is measured using the Company's secured incremental borrowing rate, which is based on an internally developed yield curve using interest rates of third parties' corporate debt issued with a similar risk profile as the Company and a duration similar to the lease term. The Company's leases have remaining terms of one to twelve years, some of which include options to extend the lease term, and some of which include options to terminate the lease upon notice. The Company considers these options when determining the lease term used to calculate the right-of-use asset and the lease liability when the Company is reasonably certain it will exercise such option.

The Company's operating leases contain both lease components and non-lease components. Non-lease components are distinct elements of a contract that are not related to securing the use of the underlying assets, such as common area maintenance and other management costs. The Company elected to measure the lease liability by combining the lease and non-lease components as a single lease component. As such, the Company includes the fixed payments and any payments that depend on a rate or index that relate to the lease and non-lease components in the measurement of the lease liability. Some of the non-lease components are variable in nature and not based on an index or rate, and as a result, are not included in the measurement of the right-of-use asset or lease liability.

Operating lease expense is recognized on a straight-line basis over the lease term and is included in occupancy, depreciation and amortization, expense in the Company's condensed consolidated statements of comprehensive income.

Comprehensive Income and Foreign Currency Translation

The Company's operating results are reported in the condensed consolidated statements of comprehensive income pursuant to FASB ASC Topic 220, "Comprehensive Income."

Comprehensive income consists of two components: net income and other comprehensive income ("OCI"). The Company's OCI is comprised of gains and losses resulting from translating foreign currency financial statements of non-U.S. subsidiaries, net of related income taxes, where applicable. In general, the practice and intention of the Company is to reinvest the earnings of its non-U.S. subsidiaries in those operations, therefore tax is usually not accrued on OCI.

The Company's non-U.S. domiciled subsidiaries have a functional currency that is other than the U.S. dollar. Such subsidiaries' assets and liabilities are translated into U.S. dollars at period-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the period. Adjustments that result from translating amounts from a subsidiary's functional currency to the U.S. dollar (as described above) are reported net of tax, where applicable, in accumulated OCI in the condensed consolidated statements of financial condition.

Revenue Recognition

Commissions

Commissions earned for executing and/or clearing transactions are accrued on a trade date basis and are reported as commissions in the condensed consolidated statements of comprehensive income. See Note 8 for further information on revenue from contracts with customers.

Interest Income and Expense

The Company earns interest income and incurs interest expense primarily in connection with its electronic brokerage customer business and its securities lending activities, which are recorded on an accrual basis and are included in interest income and interest expense, respectively, in the condensed consolidated statements of comprehensive income.

Trading Gains

Trading gains and losses are recorded on trade date and are reported on a net basis. Trading gains and losses are comprised of changes in the fair value of financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value (i.e., unrealized gains and losses) and realized gains and losses related to the Company's market making business segment. Included in trading gains are net gains and losses on stocks, options, futures, foreign exchange and other derivative instruments. Dividends are integral to the valuation of stocks. Accordingly, dividend income and expense attributable to financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value, held for market making purposes, are reported on a net basis in trading gains in the condensed consolidated statements of comprehensive income.

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Foreign Currency Gains and Losses

Foreign currency balances are assets and liabilities in currencies other than the Company's functional currency. At every reporting date, the Company revalues its foreign currency balances to its functional currency at the spot exchange rate and records the associated foreign currency gains and losses. These foreign currency gains and losses are reported in the condensed consolidated statements of comprehensive income, as follows: (a) foreign currency gains and losses related to the Company's currency diversification strategy are reported in other income; (b) foreign currency gains and losses related to the market making core-business activities are reported in trading gains; (c) foreign currency gains and losses arising from currency swap transactions in the electronic brokerage business are reported in interest income; and (d) all other foreign currency gains and losses are reported in other income.

Rebates

Rebates consist of volume discounts, credits or payments received from exchanges or other market centers related to the placement and/or removal of liquidity from the order flow in the marketplace and are recorded on an accrual basis. Rebates are recorded net within execution, clearing and distribution fees in the condensed consolidated statements of comprehensive income. Rebates received for trades executed on behalf of customers that elect tiered pricing are passed, in whole or part, to these customers; and such pass-through amounts are recorded net within commissions in the condensed consolidated statements of comprehensive income.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740, "Income Taxes" ("ASC Topic 740"). The Company's income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits are based on enacted tax laws (see Note 11) and reflect management's best assessment of estimated future taxes to be paid. The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Determining income tax expense requires significant judgment and estimates.

Deferred income tax assets and liabilities arise from temporary differences between the tax and financial statement recognition of underlying assets and liabilities. In evaluating the ability to recover deferred tax assets within the jurisdictions from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, historical results are adjusted for changes in accounting policies and incorporate assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company is using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, three years of cumulative operating income (loss) are considered. Deferred income taxes have not been provided for U.S. tax liabilities or for additional foreign taxes on the unremitted earnings of foreign subsidiaries that have been indefinitely reinvested.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across the Company's global operations. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future.

The Company records tax liabilities in accordance with ASC Topic 740 and adjusts these liabilities when management's judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in payments that are different from the current estimates of these tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information becomes available.

The Company recognizes a tax benefit from an uncertain tax position only when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. A tax position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement.

The Company recognizes interest related to income tax matters as interest income or interest expense and penalties related to income tax matters as income tax expense in the condensed consolidated statements of comprehensive income.

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Recently Issued Accounting Pronouncements

Following is a summary of recently issued FASB Accounting Standards Updates (“ASUs”) that may affect the Company’s condensed consolidated financial statements:

	Affects	Status
ASU 2016-13	<i>Financial Instruments - Credit Losses (Topic 326)</i> : Measurement of Credit Losses on Financial Instruments.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2017-04	<i>Intangibles - Goodwill and Other (Topic 350)</i> : Simplifying the Test for Goodwill Impairment.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2018-13	<i>Fair Value Measurement (Topic 820)</i> : Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2018-15	<i>Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)</i> : Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2019-04	Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2019-05	<i>Financial Instruments - Credit Losses (Topic 326)</i> : Targeted Transition Relief.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2019-07	<i>Codification Updates to SEC Sections</i> - Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases N. 33-10532, Disclosure Update and Simplification, Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization and Miscellaneous Updates.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.

Adoption of the ASUs that became effective during 2018 and 2019, prior to the issuance of the Company’s condensed consolidated financial statements, had no material effect on these financial statements, except as described in the notes to these financial statements. In June 2016, the FASB issued ASU 2016-13 *Financial Instruments - Credit Losses* which replaces the current incurred loss impairment guidance and establishes a single allowance framework for financial assets that are carried at amortized cost. ASU 2016-13 stipulates that the allowance must reflect management’s estimate of credit losses over the life of the financial assets taking future economic changes into account, and requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. The Company continues to assess the impact of this ASU on its consolidated financial statements and any changes required to existing systems, policies and controls.

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3. Trading Activities and Related Risks

The Company's trading activities include providing securities brokerage and market making services. Trading activities expose the Company to market and credit risks. These risks are managed in accordance with established risk management policies and procedures. To accomplish this, management has established a risk management process that includes:

- a regular review of the risk management process by executive management as part of its oversight role;
- defined risk management policies and procedures supported by a rigorous analytic framework; and
- articulated risk tolerance levels as defined by executive management that are regularly reviewed to ensure that the Company's risk-taking is consistent with its business strategy, its capital structure, and current and anticipated market conditions.

Market Risk

The Company is exposed to various market risks. Exposures to market risks arise from equity price risk, foreign currency exchange rate fluctuations and changes in interest rates. The Company seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price and spread movements of trading inventories and related financing and hedging activities. The Company uses a combination of cash instruments and exchange traded derivatives to hedge its market exposures. The Company does not apply hedge accounting. The following discussion describes the types of market risk faced:

Equity Price Risk

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. The Company is subject to equity price risk primarily in financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value. The Company attempts to limit such risks by continuously reevaluating prices and by diversifying its portfolio across many different options, futures and underlying securities and avoiding concentrations of positions based on the same underlying security.

Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. The Company manages this risk using spot (i.e., cash) currency transactions, currency futures contracts and currency forward contracts. As a global electronic broker and market maker trading on exchanges around the world in multiple currencies, the Company is exposed to foreign currency risk. The Company actively manages its currency exposure using a currency diversification strategy that is based on a defined basket of 14 currencies internally referred to as the "GLOBAL." These strategies minimize the fluctuation of the Company's net worth as expressed in GLOBALs, thereby diversifying its risk in alignment with these global currencies, weighted by the Company's view of their importance. As the Company's financial results are reported in U.S. dollars, the change in the value of the GLOBAL as expressed in U.S. dollars affects the Company's earnings. The impact of this currency diversification strategy in the Company's earnings is included in other income in the condensed consolidated statements of comprehensive income.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is exposed to interest rate risk on cash and margin balances, positions carried in equity and fixed income securities, options, futures and on its borrowings. These risks are managed through investment policies and by entering into interest rate futures contracts.

Credit Risk

The Company is exposed to risk of loss if a customer, counterparty or issuer fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose the Company to default risk. The Company has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

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The Company's credit risk is limited as contracts entered into are settled directly at securities and commodities clearing houses or are settled through member firms and banks with substantial financial and operational resources. Over-the-counter transactions, such as securities lending and contracts for differences ("CFDs"), are marked to market daily and are conducted with counterparties that have undergone a thorough credit review. The Company seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

In the normal course of business, the Company executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities which exposes the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers or counterparties. Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities fails to receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities fails to receive, the Company may purchase the underlying security in the market and seek reimbursement for any losses from the counterparty.

For cash management purposes, the Company enters into short-term securities purchased under agreements to resell and securities sold under agreements to repurchase transactions ("repos") in addition to securities borrowing and lending arrangements, all of which may result in credit exposure in the event the counterparty to a transaction is unable to fulfill its contractual obligations. Repos are collateralized by securities with a market value in excess of the obligation under the contract. Similarly, securities lending agreements are collateralized by deposits of cash or securities. The Company attempts to minimize credit risk associated with these activities by monitoring collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Company as permitted under contractual provisions.

Concentrations of Credit Risk

The Company's exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of September 30, 2019, the Company did not have any material concentrations of credit risk outside the ordinary course of business.

Off-Balance Sheet Risks

The Company may be exposed to a risk of loss not reflected in the condensed consolidated financial statements to settle futures and certain over-the-counter contracts at contracted prices, which may require repurchase or sale of the underlying products in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk as the Company's cost to liquidate such contracts may exceed the amounts reported in the Company's condensed consolidated statements of financial condition.

4. Equity and Earnings per Share

In connection with IBG, Inc.'s initial public offering of Class A common stock ("IPO") in May 2007, it purchased 10.0% of the membership interests in IBG LLC from IBG Holdings LLC ("Holdings"), became the sole managing member of IBG LLC and began to consolidate IBG LLC's financial results into its financial statements. Holdings owns all of IBG, Inc.'s Class B common stock, which has voting rights in proportion to its ownership interests in IBG LLC. The table below shows the amount of IBG LLC membership interests held by IBG, Inc. and Holdings as of September 30, 2019.

	<u>IBG, Inc.</u>	<u>Holdings</u>	<u>Total</u>
Ownership %	18.5%	81.5%	100.0%
Membership interests	76,748,855	338,670,642	415,419,497

These condensed consolidated financial statements reflect the results of operations and financial position of IBG, Inc., including consolidation of its investment in IBG LLC and its subsidiaries. The noncontrolling interests in IBG LLC attributable to Holdings are reported as a component of total equity in the condensed consolidated statements of financial condition.

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Recapitalization and Post-IPO Capital Structure

Immediately prior to and immediately following the consummation of the IPO, IBG, Inc., Holdings, IBG LLC and the members of IBG LLC consummated a series of transactions collectively referred to herein as the “Recapitalization.” In connection with the Recapitalization, IBG, Inc., Holdings and the historical members of IBG LLC entered into an exchange agreement, dated as of May 3, 2007 (the “Exchange Agreement”), pursuant to which the historical members of IBG LLC received membership interests in Holdings in exchange for their membership interests in IBG LLC. Additionally, IBG, Inc. became the sole managing member of IBG LLC.

In connection with the consummation of the IPO, Holdings used the net proceeds to redeem

10.0% of members’ interests in Holdings in proportion to their interests. Immediately following the Recapitalization and IPO, Holdings owned approximately 90% of IBG LLC and 100% of IBG, Inc.’s Class B common stock.

Since consummation of the IPO and Recapitalization, IBG, Inc.’s equity capital structure has been comprised of Class A and Class B common stock. All shares of common stock have a par value of \$0.01 per share and have identical rights to earnings and dividends and in liquidation. As of September 30, 2019 and December 31, 2018, 1,000,000,000 shares of Class A common stock were authorized, of which 76,878,300 and 75,230,400 shares have been issued; and 76,748,852 and 75,100,952 shares were outstanding, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of September 30, 2019 and December 31, 2018, respectively. In addition, 10,000 shares of preferred stock have been authorized, of which no shares were issued or outstanding as of September 30, 2019 and December 31, 2018, respectively.

As a result of a federal income tax election made by IBG LLC applicable to the acquisition of IBG LLC member interests by IBG, Inc., the income tax basis of the assets of IBG LLC acquired by IBG, Inc. have been adjusted based on the amount paid for such interests. Deferred tax assets were recorded as of the IPO date and in connection with subsequent redemptions of Holdings member interests in exchange for common stock. These deferred tax assets are included in other assets in the Company’s condensed consolidated statements of financial condition and are being amortized as additional deferred income tax expense over 15 years from the IPO date and from the additional redemption dates, respectively, as allowable under current tax law. As of September 30, 2019 and December 31, 2018, the unamortized balance of these deferred tax assets was \$124 million and \$140 million, respectively.

IBG, Inc. also entered into an agreement (the “Tax Receivable Agreement”) with Holdings to pay Holdings (for the benefit of the former members of IBG LLC) 85% of the tax savings that IBG, Inc. actually realizes as the result of tax basis increases. These payables to Holdings are reported as payable to affiliate in the Company’s condensed consolidated statements of financial condition. The remaining 15% is accounted for as a permanent increase to additional paid-in capital in the Company’s condensed consolidated statements of financial condition.

The cumulative amounts of deferred tax assets, payables to Holdings and additional paid-in capital arising from stock offerings from the date of the IPO through September 30, 2019 were \$501 million, \$426 million, and \$75 million, respectively. Amounts payable under the Tax Receivable Agreement are payable to Holdings annually following the filing of IBG, Inc.’s federal income tax return. The Company has paid Holdings a cumulative total of \$188 million through September 30, 2019 pursuant to the terms of the Tax Receivable Agreement.

The Exchange Agreement, as amended, provides for future redemptions of member interests and for the purchase of member interests in IBG LLC by IBG, Inc. from Holdings, which could result in IBG, Inc. acquiring the remaining member interests in IBG LLC that it does not own. On an annual basis, members of Holdings are able to request redemption of their interests.

At the time of IBG, Inc.’s IPO in 2007, three hundred sixty (360) million shares of authorized common stock were reserved for future sales and redemptions. From 2008 through 2010, Holdings redeemed 5,013,259 IBG LLC interests with a total value of \$114 million, which redemptions were funded using cash on hand at IBG LLC. Upon cash redemption these IBG LLC interests were retired. From 2011 through 2018, IBG, Inc. issued 15,396,082 shares of common stock (with a fair value of \$505 million) directly to Holdings in exchange for an equivalent number of member interests in IBG LLC.

As a consequence of these redemption transactions, and distribution of shares to employees (see Note 10), IBG, Inc.’s interest in IBG LLC has increased to approximately 18.5%, with Holdings owning the remaining 81.5% as of September 30, 2019. The redemptions also resulted in an increase in the Holdings interest held by Mr. Thomas Peterffy and his affiliates from approximately 84.6% at the IPO to approximately 89.6% as of September 30, 2019.

On July 26, 2019, the Company filed a Prospectus Supplement on Form 424B5 (File Number 333-219552) with the SEC to issue 21,075 shares of common stock (with a fair value of \$1 million) in exchange for an equivalent number of shares of member interests in IBG LLC. This issuance of shares slightly increased the Company’s ownership in IBG LLC.

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On October 7, 2019, the Company filed a Prospectus Supplement on Form 424B (File Number 333-219552) with the SEC to register up to 1,000,000 shares of common stock, offering the opportunity for eligible persons to receive awards in the form of an offer to receive such shares by participating in one or more promotions that are designed to attract new customers to the Company's brokerage platform, increase assets held with the Company's brokerage business and enhance customer loyalty. Assuming all shares are issued, IBG Inc.'s interest in IBG LLC would increase from 18.5% to 18.7%.

Earnings per Share

Basic earnings per share is calculated utilizing net income available for common stockholders divided by the weighted average number of shares of Class A and Class B common stock outstanding for that period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions, except share or per share amounts)			
Basic earnings per share				
Net income available for common stockholders	\$ 36	\$ 39	\$ 117	\$ 126
Weighted average shares of common stock outstanding				
Class A	76,742,689	74,649,369	75,909,980	72,878,907
Class B	100	100	100	100
	<u>76,742,789</u>	<u>74,649,469</u>	<u>75,910,080</u>	<u>72,879,007</u>
Basic earnings per share	<u>\$ 0.46</u>	<u>\$ 0.52</u>	<u>\$ 1.54</u>	<u>\$ 1.73</u>

Diluted earnings per share are calculated utilizing the Company's basic net income available for common stockholders divided by diluted weighted average shares outstanding with no adjustments to net income available to common stockholders for potentially dilutive common shares.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions, except share or per share amounts)			
Diluted earnings per share				
Net income available for common stockholders	\$ 36	\$ 39	\$ 117	\$ 126
Weighted average shares of common stock outstanding				
Class A				
Issued and outstanding	76,742,689	74,649,369	75,909,980	72,878,907
Potentially dilutive common shares				
Issuable pursuant to employee stock incentive plans	606,187	710,620	736,407	866,633
Class B	100	100	100	100
	<u>77,348,976</u>	<u>75,360,089</u>	<u>76,646,487</u>	<u>73,745,640</u>
Diluted earnings per share	<u>\$ 0.45</u>	<u>\$ 0.51</u>	<u>\$ 1.52</u>	<u>\$ 1.71</u>

Member Distributions and Stockholder Dividends

During the nine months ended September 30, 2019, IBG LLC made distributions totaling \$371 million, to its members, of which IBG, Inc.'s proportionate share was \$68 million. In March, June and September 2019, the Company paid quarterly cash dividends of \$0.10 per share of common stock, totaling \$8 million, \$7 million and \$8 million, respectively.

On October 15, 2019, the Company declared a cash dividend of \$0.10 per common share, payable on December 13, 2019 to stockholders of record as of November 29, 2019.

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5. Comprehensive Income

The following table presents comprehensive income and earnings per share on comprehensive income:

	<u>Three Months Ended September 30,</u> <u>2019</u>	<u>2018</u>	<u>Nine Months Ended September 30,</u> <u>2019</u>	<u>2018</u>
	(in millions, except share or per share amounts)			
Comprehensive income available for common stockholders	\$ 30	\$ 38	\$ 114	\$ 113
Earnings per share on comprehensive income				
Basic	\$ 0.39	\$ 0.51	\$ 1.50	\$ 1.55
Diluted	\$ 0.39	\$ 0.50	\$ 1.49	\$ 1.54
Weighted average common shares outstanding				
Basic	76,742,789	74,649,469	75,910,080	72,879,007
Diluted	77,348,976	75,360,089	76,646,487	73,745,640

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6. Financial Assets and Financial Liabilities

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables set forth, by level within the fair value hierarchy (see Note 2), financial assets and liabilities, measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018. As required by ASC Topic 820, financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the respective fair value measurement.

Financial Assets at Fair Value as of September 30, 2019				
	Level 1	Level 2	Level 3	Total
	(in millions)			
Securities segregated for regulatory purposes	\$ 3,787	\$ -	\$ -	\$ 3,787
Financial instruments owned, at fair value				
Stocks	543	-	-	543
Options	1,293	-	-	1,293
Warrants	-	-	-	-
U.S. and foreign government securities	42	-	-	42
Corporate bonds	-	-	3	3
Currency forward contracts	-	2	-	2
Total financial instruments owned, at fair value	1,878	2	3	1,883
Other assets - other investments at fair value	43	-	-	43
Total financial assets at fair value	\$ 5,708	\$ 2	\$ 3	\$ 5,713
Financial Liabilities at Fair Value as of September 30, 2019				
	Level 1	Level 2	Level 3	Total
	(in millions)			
Financial instruments sold, but not yet purchased, at fair value				
Stocks	\$ 467	\$ -	\$ -	\$ 467
Options	495	-	-	495
Currency forward contracts	-	15	-	15
Total financial instruments sold, but not yet purchased, at fair value	962	15	-	977
Total financial liabilities at fair value	\$ 962	\$ 15	\$ -	\$ 977

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	Financial Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Securities segregated for regulatory purposes	\$ 4,213	\$ -	\$ -	\$ 4,213
Financial instruments owned, at fair value				
Stocks	494	-	-	494
Options	1,479	-	-	1,479
Warrants	1	-	-	1
U.S. and foreign government securities	113	-	-	113
Corporate and municipal bonds	-	1	3	4
Currency forward contracts	-	28	-	28
Total financial instruments owned, at fair value	2,087	29	3	2,119
Total financial assets at fair value	\$ 6,300	\$ 29	\$ 3	\$ 6,332
	Financial Liabilities at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Financial instruments sold, but not yet purchased, at fair value				
Stocks	\$ 273	\$ -	\$ -	\$ 273
Options	404	-	-	404
Currency forward contracts	-	4	-	4
Total financial instruments sold, but not yet purchased, at fair value	677	4	-	681
Total financial liabilities at fair value	\$ 677	\$ 4	\$ -	\$ 681

Transfers between Level 1 and Level 2

Transfers of financial assets and financial liabilities at fair value to or from Levels 1 and 2 arise where the market for a specific financial instrument has become active or inactive during the period. The fair values transferred are ascribed as if the financial assets or financial liabilities had been transferred as of the end of the period.

Level 3 Financial Assets and Financial Liabilities

The Company's Level 3 financial assets are comprised of delisted and illiquid securities reported within financial instruments owned, at fair value in the condensed consolidated statements of financial condition. As of September 30, 2019, Level 3 financial assets included \$3 million in corporate bonds, which were not traded in active markets and were valued by the Company based on internal estimates.

During the nine months ended September 30, 2019 and 2018,

no transfers occurred between levels for financial assets and liabilities, at fair value.

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Trading Gains from Market Making Transactions

Trading gains and losses from market making transactions reported in the condensed consolidated statements of comprehensive income, by major product type, are comprised of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Equities	\$ 7	\$ 7	\$ 20	\$ 32
Foreign exchange	-	-	-	-
Total trading gains, net	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ 20</u>	<u>\$ 32</u>

These transactions are related to the Company's financial instruments owned and financial instruments sold, but not yet purchased, at fair value and include both derivative and non-derivative financial instruments, including exchange traded options and futures. These gains and losses also include market making related dividend income and expense.

Financial Assets and Liabilities Not Measured at Fair Value

The following tables represent the carrying value, fair value, and fair value hierarchy category of certain financial assets and liabilities that are not recorded at fair value in the Company's condensed consolidated statements of financial condition. The following table excludes certain financial instruments such as equity investments and all non-financial assets and liabilities:

September 30, 2019					
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(in millions)				
Financial assets, not measured at fair value					
Cash and cash equivalents	\$ 3,035	\$ 3,035	\$ 3,035	\$ -	\$ -
Cash - segregated for regulatory purposes	8,794	8,794	8,794	-	-
Securities - segregated for regulatory purposes	17,459	17,459	-	17,459	-
Securities borrowed	4,010	4,010	-	4,010	-
Securities purchased under agreements to resell	1,391	1,391	-	1,391	-
Receivables from customer	25,970	25,970	-	25,970	-
Receivables from broker, dealers, and clearing organizations	868	868	-	868	-
Interest receivable	131	131	-	131	-
Other assets	9	9	-	4	5
Total financial assets, not measured at fair value	<u>\$ 61,667</u>	<u>\$ 61,667</u>	<u>\$ 11,829</u>	<u>\$ 49,833</u>	<u>\$ 5</u>
Financial liabilities, not measured at fair value					
Short-term borrowings	\$ 15	\$ 15	\$ -	\$ 15	\$ -
Securities loaned	3,955	3,955	-	3,955	-
Payables to customer	54,474	54,474	-	54,474	-
Payables to brokers, dealers and clearing organizations	245	245	-	245	-
Interest payable	37	37	-	37	-
Total financial liabilities, not measured at fair value	<u>\$ 58,726</u>	<u>\$ 58,726</u>	<u>\$ -</u>	<u>\$ 58,726</u>	<u>\$ -</u>

Interactive Brokers Group, Inc. and Subsidiaries
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	December 31, 2018				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(in millions)				
Financial assets, not measured at fair value					
Cash and cash equivalents	\$ 2,597	\$ 2,597	\$ 2,597	\$ -	\$ -
Cash - segregated for regulatory purposes	7,503	7,503	7,503	-	-
Securities - segregated for regulatory purposes	11,382	11,382	-	11,382	-
Securities borrowed	3,331	3,331	-	3,331	-
Securities purchased under agreements to resell	1,242	1,242	-	1,242	-
Receivables from customer	27,017	27,017	-	27,017	-
Receivables from broker, dealers, and clearing organizations	706	706	-	706	-
Interest receivable	141	141	-	141	-
Other assets	5	6	-	6	-
Total financial assets, not measured at fair value	<u>\$ 53,924</u>	<u>\$ 53,925</u>	<u>\$ 10,100</u>	<u>\$ 43,825</u>	<u>\$ -</u>
Financial liabilities, not measured at fair value					
Short-term borrowings	\$ 17	\$ 17	\$ -	\$ 17	\$ -
Securities loaned	4,037	4,037	-	4,037	-
Payables to customer	47,993	47,993	-	47,993	-
Payables to brokers, dealers and clearing organizations	298	298	-	298	-
Interest payable	41	41	-	41	-
Total financial liabilities, not measured at fair value	<u>\$ 52,386</u>	<u>\$ 52,386</u>	<u>\$ -</u>	<u>\$ 52,386</u>	<u>\$ -</u>

Netting of Financial Assets and Financial Liabilities

The Company's policy is to net securities borrowed and securities loaned, and securities purchased under agreements to resell and securities sold under agreements to repurchase that meet the offsetting requirements prescribed in ASC Topic 210-20. In the tables below, the amounts of financial instruments that are not offset in the condensed consolidated statements of financial condition, but could be netted against cash or financial instruments with specific counterparties under master netting agreements, according to the terms of the agreements, including clearing houses (exchange traded options, warrants and discount certificates) or over the counter currency forward contract counterparties, are presented to provide financial statement readers with the Company's net payable or receivable with counterparties for these financial instruments.

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The following tables set forth the netting of financial assets and of financial liabilities as of September 30, 2019 and December 31, 2018:

	September 30, 2019				
	Gross Amounts of Financial Assets and Liabilities Recognized	Amounts Offset in the Condensed Consolidated Statement of Financial Condition 2	Net Amounts Presented in the Condensed Consolidated Statement of Financial Condition (in millions)	Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition Cash or Financial Instruments	Net Amount
Offsetting of financial assets					
Securities segregated for regulatory purposes - purchased under agreements to resell	\$ 17,459 ¹	\$ -	\$ 17,459	\$ (17,459)	\$ -
Securities borrowed	4,010	-	4,010	(3,856)	154
Securities purchased under agreements to resell	1,391	-	1,391	(1,391)	-
Financial instruments owned, at fair value					
Options	1,293	-	1,293	(492)	801
Warrants	-	-	-	-	-
Currency forward contracts	2	-	2	-	2
Total	<u>\$ 24,155</u>	<u>\$ -</u>	<u>\$ 24,155</u>	<u>\$ (23,198)</u>	<u>\$ 957</u>
Offsetting of financial liabilities					
Securities loaned	\$ 3,955	\$ -	\$ 3,955	\$ (3,720)	\$ 235
Financial instruments sold, but not yet purchased, at fair value					
Options	495	-	495	(492)	3
Currency forward contracts	15	-	15	-	15
Total	<u>\$ 4,465</u>	<u>\$ -</u>	<u>\$ 4,465</u>	<u>\$ (4,212)</u>	<u>\$ 253</u>

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December 31, 2018

	Gross Amounts of Financial Assets and Liabilities Recognized	Amounts Offset in the Condensed Consolidated Statement of Financial Condition 2	Net Amounts Presented in the Condensed Consolidated Statement of Financial Condition (in millions)	Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition Cash or Financial Instruments	Net Amount
Offsetting of financial assets					
Securities segregated for regulatory purposes - purchased under agreements to resell	\$ 11,382 ¹	\$ -	\$ 11,382	\$ (11,382)	\$ -
Securities borrowed	3,331	-	3,331	(3,199)	132
Securities purchased under agreements to resell	1,242	-	1,242	(1,242)	-
Financial instruments owned, at fair value					
Options	1,479	-	1,479	(398)	1,081
Warrants	1	-	1	-	1
Currency forward contracts	28	-	28	-	28
Total	\$ 17,463	\$ -	\$ 17,463	\$ (16,221)	\$ 1,242
Offsetting of financial liabilities					
Securities loaned	\$ 4,037	\$ -	\$ 4,037	\$ (3,838)	\$ 199
Financial instruments sold, but not yet purchased, at fair value					
Options	404	-	404	(398)	6
Currency forward contracts	4	-	4	-	4
Total	\$ 4,445	\$ -	\$ 4,445	\$ (4,236)	\$ 209

(1) As of September 30, 2019 and December 31, 2018, the Company had \$17.5 billion and \$11.4 billion, respectively, of securities purchased under agreements to resell that were segregated to satisfy regulatory requirements. These securities are included in "Securities - segregated for regulatory purposes" in the condensed consolidated statements of financial condition.

(2) The Company did not have any balances eligible for netting in accordance with ASC Topic 210-20 at September 30, 2019 and December 31, 2018.

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Secured Financing Transactions - Maturities and Collateral Pledged

The following tables present gross obligations for securities loaned transactions by remaining contractual maturity and class of collateral pledged as of September 30, 2019 and December 31, 2018:

	September 30, 2019				
	Remaining Contractual Maturity				
	Overnight and Open	Less than 30 days	30 - 90 days	Over 90 days	Total
	(in millions)				
Securities loaned					
Stocks	\$ 3,888	\$ -	\$ -	\$ -	\$ 3,888
Corporate bonds	66	-	-	-	66
Foreign government securities	1	-	-	-	1
Total securities loaned	\$ 3,955	\$ -	\$ -	\$ -	\$ 3,955
	December 31, 2018				
	Remaining Contractual Maturity				
	Overnight and Open	Less than 30 days	30 - 90 days	Over 90 days	Total
	(in millions)				
Securities loaned					
Stocks	\$ 3,970	\$ -	\$ -	\$ -	\$ 3,970
Corporate bonds	65	-	-	-	65
Foreign government securities	2	-	-	-	2
Total securities loaned	\$ 4,037	\$ -	\$ -	\$ -	\$ 4,037

7. Collateralized Transactions

The Company enters into securities borrowing and lending transactions and agreements to repurchase and resell securities to finance trading inventory, to obtain securities for settlement and to earn residual interest rate spreads. In addition, the Company's customers pledge their securities owned to collateralize margin loans. Under these transactions, the Company either receives or provides collateral, including equity, corporate debt and U.S. government securities. Under typical agreements, the Company is permitted to sell or repledge securities received as collateral and use these securities to secure securities purchased under agreements to resell, enter into securities lending transactions or deliver these securities to counterparties to cover short positions.

The Company also engages in securities financing transactions with and for customers through margin lending. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. Customers' required margin levels and established credit limits are monitored continuously by risk management staff using automated systems. Pursuant to the Company's policy and as enforced by such systems, customers are required to deposit additional collateral or reduce positions, when necessary, to avoid automatic liquidation of their positions.

Margin loans are extended to customers on a demand basis and are not committed facilities. Factors considered in the acceptance or rejection of margin loans are the amount of the loan, the degree of leverage being employed in the customer account and an overall evaluation of the customer's portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral. Additionally, transactions relating to concentrated or restricted positions are limited or prohibited by raising the level of required margin collateral (to 100% in the extreme case). Underlying collateral for margin loans is evaluated with respect to the liquidity of the collateral positions, valuation of securities, volatility analysis and an evaluation of industry concentrations. Adherence to the Company's collateral policies significantly limits the Company's credit exposure to margin loans in the event of a customer's default. Under margin lending agreements, the Company may request additional margin collateral from customers and may sell securities that have not been paid for or purchase securities sold but not delivered from customers, if necessary. As of September 30, 2019 and December 31, 2018, approximately \$

26.0 billion and \$27.0 billion, respectively, of customer margin loans were outstanding.

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The following table summarizes the amounts related to collateralized transactions as of September 30, 2019 and December 31, 2018:

	September 30, 2019		December 31, 2018	
	Permitted to Repledge	Sold or Repledged	Permitted to Repledge	Sold or Repledged
	(in millions)			
Securities lending transactions	\$ 28,591	\$ 4,078	\$ 21,412	\$ 3,284
Securities purchased under agreements to resell transactions ¹	18,885	18,081	12,672	11,881
Customer margin assets	26,060	9,707	25,778	6,616
	<u>\$ 73,536</u>	<u>\$ 31,866</u>	<u>\$ 59,862</u>	<u>\$ 21,781</u>

(1) As of September 30, 2019, \$17.5 billion or 97% (as of December 31, 2018, \$11.4 billion or 96%) of securities acquired through agreements to resell that are shown as repledged have been deposited in a separate bank account for the exclusive benefit of customers in accordance with SEC Rule 15c3-3.

In the normal course of business, the Company pledges qualified securities with clearing organizations to satisfy daily margin and clearing fund requirements. As of September 30, 2019 and December 31, 2018, the majority of the Company's U.S. and foreign government securities owned were pledged to clearing organizations.

Financial instruments owned and pledged as collateral, including amounts pledged to affiliates, where the counterparty has the right to repledge, as of September 30, 2019 and December 31, 2018 are presented in the following table:

	September 30, 2019	December 31, 2018
	(in millions)	
Stocks	\$ 150	\$ 121
U.S. and foreign government securities	39	67
	<u>\$ 189</u>	<u>\$ 188</u>

8. Revenues from Contracts with Customers

Revenue from contracts with customers is recognized when, or as, the Company satisfies its performance obligations by transferring the promised services to the customers. A service is transferred to a customer when, or as, the customer obtains control of that service. A performance obligation may be satisfied at a point in time or over time. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines the customer obtains control over the promised service. Revenue from a performance obligation satisfied over time is recognized by measuring the Company's progress in satisfying the performance obligation in a manner that depicts the transfer of the services to the customer. The amount of revenue recognized reflects the consideration the Company expects to receive in exchange for those promised services (i.e., the "transaction price"). In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration, if any.

The Company's revenues from contracts with customers are recognized when the performance obligations are satisfied at an amount that reflects the consideration expected to be received in exchange for such services. The majority of the Company's performance obligations are satisfied at a point in time and are typically collected from customers by debiting their brokerage account with the Company.

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Nature of Services

The Company's services under contracts with customers are mainly related to its electronic brokerage business. The Company's main sources of revenues from contracts with customers are as follows:

- *Commissions* are charged to customers for order execution services and trade clearing and settlement services. These services represent a single performance obligation as the services are not separately identifiable in the context of the contract. The Company recognizes revenue at a point in time at the execution of the order (i.e., trade date). Commissions are generally collected from cleared customers on trade date and from non-cleared customers monthly.
- *Market data fees* are charged to customers for market data services to which they subscribe, that are delivered by the Company. The Company recognizes revenue monthly as the performance obligation is satisfied over time by continually providing market data for the period. Market data fees are collected monthly, generally in advance.
- *Risk exposure fees* are charged to customers who carry positions with market risk that exceeds defined thresholds. The Company recognizes revenue daily as the performance obligation is satisfied at a point in time by the Company taking on additional risk of account liquidation and potential losses due to insufficient margin. Risk exposure fees are collected daily.
- *Payments for order flow* are earned from various options exchanges based upon options trading volume originated by the Company that meets certain criteria. The Company recognizes revenue daily as the performance obligation is satisfied at a point in time on customer orders that qualify for payments subject to exchange-mandated programs. Payments for order flow are collected monthly, in arrears.
- *Minimum activity fees* are charged to customers that do not generate the required minimum monthly commission. The Company recognizes revenue monthly as the performance obligation is satisfied at a point in time by servicing customer accounts that do not generate the required minimum monthly commissions. Minimum activity fees are collected monthly, in arrears.

The Company's electronic brokerage business also earns revenues from other services, including order cancellation or modification fees, position transfer fees, telecommunications fees, withdrawal fees, and bank sweep program fees, among others.

Disaggregation of Revenue

The following table sets forth revenue from contracts with customers by business segment, geographic location, and major types of services for the three months and nine months ended September 30, 2019 and 2018, as follows:

	Three Months Ended September 30, 2019			
	Electronic Brokerage	Market Making	Corporate	Total
	(in millions)			
<u>Geographic location</u> ¹				
United States	\$ 157	\$ -	\$ 1	\$ 158
International	64	-	-	64
	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 222</u>
<u>Major types of services</u>				
Commissions	\$ 187	\$ -	\$ -	\$ 187
Market data fees ²	11	-	-	11
Risk exposure fees ²	4	-	-	4
Payments for order flow ²	5	-	-	5
Minimum activity fees ²	7	-	-	7
Other ²	7	-	1	8
	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 222</u>

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Nine Months Ended September 30, 2019

	Electronic Brokerage	Market Making	Corporate	Total
	(in millions)			
<u>Geographic location</u> ¹				
United States	\$ 457	\$ 1	\$ 2	\$ 460
International	183	-	-	183
	<u>\$ 640</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 643</u>

Major types of services

Commissions	\$ 538	\$ -	\$ -	\$ 538
Market data fees ²	34	-	-	34
Risk exposure fees ²	13	-	-	13
Payments for order flow ²	16	-	-	16
Minimum activity fees ²	20	-	-	20
Other ²	19	1	2	22
	<u>\$ 640</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 643</u>

Three Months Ended September 30, 2018

	Electronic Brokerage	Market Making	Corporate	Total
	(in millions)			
<u>Geographic location</u> ¹				
United States	\$ 144	\$ 1	\$ -	\$ 145
International	59	-	-	59
	<u>\$ 203</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 204</u>

Major types of services

Commissions	\$ 167	\$ -	\$ -	\$ 167
Market data fees ²	12	-	-	12
Risk exposure fees ²	5	-	-	5
Payments for order flow ²	6	-	-	6
Minimum activity fees ²	6	-	-	6
Other ²	7	1	-	8
	<u>\$ 203</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 204</u>

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Nine Months Ended September 30, 2018

	Electronic Brokerage	Market Making	Corporate	Total
	(in millions)			
<u>Geographic location</u> ¹				
United States	\$ 483	\$ 4	\$ 1	\$ 488
International	193	-	-	193
	<u>\$ 676</u>	<u>\$ 4</u>	<u>\$ 1</u>	<u>\$ 681</u>
<u>Major types of services</u>				
Commissions	\$ 572	\$ -	\$ -	\$ 572
Market data fees ²	34	-	-	34
Risk exposure fees ²	20	-	-	20
Payments for order flow ²	16	-	-	16
Minimum activity fees ²	16	-	-	16
Other ²	18	4	1	23
	<u>\$ 676</u>	<u>\$ 4</u>	<u>\$ 1</u>	<u>\$ 681</u>

(1) Based on the location of the subsidiaries in which the revenues are recorded.

(2) Included in other income on the condensed consolidated statements of comprehensive income.

Receivables and Contract Balances

Receivables arise when the Company has an unconditional right to receive payment under a contract with a customer and are derecognized when the cash is received. Receivables of \$

9 million, as of September 30, 2019 and December 31, 2018, respectively, are reported in other assets in the condensed consolidated statements of financial condition.

Contract assets arise when the revenue associated with the contract is recognized prior to the Company's unconditional right to receive payment under a contract with a customer (i.e., unbilled receivable) and are derecognized when either it becomes a receivable or the cash is received. Contract assets are reported in other assets in the condensed consolidated statements of financial condition. As of September 30, 2019 and December 31, 2018, contract asset balances were not material.

Contract liabilities arise when customers remit contractual cash payments in advance of the Company satisfying its performance obligations under the contract and are derecognized when the revenue associated with the contract is recognized either when a milestone is met triggering the contractual right to bill the customer or when the performance obligation is satisfied. Contract liabilities are reported in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition. As of September 30, 2019 and December 31, 2018, contract liability balances were not material.

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

9. Other Income

The components of other income for the three months and nine months ended September 30, 2019 and 2018 were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Market data fees ¹	\$ 11	\$ 12	\$ 34	\$ 34
Risk exposure fees ¹	4	5	13	20
Payments for order flow ¹	5	6	16	16
Minimum activity fees ¹	7	6	20	16
Other brokerage related fees	7	7	19	18
Gains (losses) on financial instruments, at fair value and other investments, net	(7)	4	49	15
Gains (losses) from currency diversification strategy, net	(47)	(24)	(72)	(7)
Other, net	1	5	4	9
	<u>\$ (19)</u>	<u>\$ 21</u>	<u>\$ 83</u>	<u>\$ 121</u>

(1) See Note 8 for description of these revenues.

Other brokerage related fees include FDIC sweep fees, order routing fees, IPO concession fees and other miscellaneous fees charged to customers. Gains on financial instruments, at fair value and other investments, net include (1) realized and unrealized gains and losses on financial instruments that (a) are held for purposes other than the Company's market making activities, (b) are subject to restrictions, or (c) are accounted for under the equity method and (2) dividends on investments accounted at cost less impairment.

10. Employee Incentive Plans

Defined Contribution Plan

The Company offers substantially all employees of U.S.-based Operating Companies who have met minimum service requirements the opportunity to participate in defined contribution retirement plans qualifying under the provisions of Section 401(k) of the Internal Revenue Code. The general purpose of this plan is to provide employees with an incentive to make regular savings in order to provide additional financial security during retirement. This plan provides for the Company to match 50% of the employees' pre-tax contribution, up to a maximum of

10% of eligible earnings. The employee is vested in the matching contribution incrementally over six years of service. Included in employee compensation and benefits expenses in the condensed consolidated statements of comprehensive income were \$3 million of plan contributions for each of the nine months ended September 30, 2019 and 2018.

2007 Stock Incentive Plan

Under the Company's Stock Incentive Plan, up to 30 million shares of the Company's Class A common stock may be issued to satisfy vested restricted stock units granted to directors, officers, employees, contractors and consultants of the Company. The purpose of the Stock Incentive Plan is to promote the Company's long-term financial success by attracting, retaining and rewarding eligible participants.

As a result of the Company's organizational structure, a description of which can be found in "Business - Our Organizational Structure" in Part I, Item 1 of the Company's Annual Report on Form 10-K, there is no dilutive effect upon ownership of common stockholders of issuing shares under the Stock Incentive Plan. The issuances do not dilute the book value of the ownership of common stockholders since the restricted stock units are granted at market value, and upon their vesting and the related issuance of shares of common stock, the ownership of IBG, Inc. in IBG LLC, increases proportionately to the shares issued. As a result of such proportionate increase in share ownership, the dilution upon issuance of common stock is borne by IBG LLC's majority member (i.e., noncontrolling interest), Holdings, and not by IBG, Inc. or its common stockholders. Additionally, dilution of earnings that may take place after issuance of common stock is reflected in EPS reported in the Company's financial statements. The EPS dilution can be neither estimated nor projected, but historically it has not been material.

The Stock Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors. The Compensation Committee has discretionary authority to determine the eligibility to participate in the Stock Incentive Plan and establishes the terms and conditions of the awards, including the number of awards granted to each participant and all other terms and conditions applicable to such awards in individual grant agreements. Awards are expected to be made primarily through grants of restricted stock units.

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Stock Incentive Plan awards are subject to issuance over time. All previously granted but not yet earned awards may be cancelled by the Company upon the participant's termination of employment or violation of certain applicable covenants prior to issuance, unless determined otherwise by the Compensation Committee.

The Stock Incentive Plan provides that, upon a change in control, the Compensation Committee may, at its discretion, fully vest any granted but not yet earned awards under the Stock Incentive Plan, or provide that any such granted but not yet earned awards will be honored or assumed, or new rights substituted by the new employer on a substantially similar basis and on terms and conditions substantially comparable to those of the Stock Incentive Plan.

The Company expects to continue to grant awards on or about December 31 of each year to eligible participants as part of an overall plan of equity compensation. Restricted stock units vest and become distributable to participants in accordance with the following schedule:

- 10% on the first vesting date, which is on or about May 9 of each year; and
- an additional 15% on each of the following six anniversaries of the first vesting, assuming continued employment with the Company and compliance with non-competition and other applicable covenants.

Awards granted to external directors vest, and are distributed, over a five-year period (20% per year) commencing one year after the date of grant. A total of 25,636 restricted stock units have been granted to the external directors cumulatively since the plan's inception.

Stock Incentive Plan awards granted and the related fair values since the plan's inception are presented in the table below:

	Units	Fair Value at Date of Grant (\$ millions)
Prior periods (since inception)	22,100,001	\$ 449
December 31, 2016	1,451,136	55
December 31, 2017	946,489	57
December 31, 2018	1,146,267 ¹	62
	25,643,893	\$ 623

(1) Stock Incentive Plan number of granted restricted stock units related to 2018 was adjusted by 640 additional restricted stock units during the nine months ended September 30, 2019.

Estimated future grants under the Stock Incentive Plan are accrued for ratably during each year (see Note 2). In accordance with the vesting schedule, outstanding awards vest and are distributed to participants yearly on or about May 9 of each year. At the end of each year, no vested awards remain undistributed.

Compensation expense related to the Stock Incentive Plan recognized in the condensed consolidated statements of comprehensive income was \$43 million and \$42 million for the nine months ended September 30, 2019 and 2018, respectively. Estimated future compensation costs for unvested awards, net of credits for cancelled awards, as of September 30, 2019 are \$27 million.

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

The following table summarizes the Stock Incentive Plan activity from December 31, 2018 through September 30, 2019:

	Stock Incentive Plan Units
Balance, December 31, 2018	5,472,706 ¹
Granted	-
Cancelled	(71,829)
Distributed	(1,626,825)
Balance, September 30, 2019	3,774,052

(1) Stock Incentive Plan number of granted restricted stock units related to 2018 was adjusted by 640 additional restricted stock units during the nine months ended September 30, 2019.

Awards previously granted but not yet earned under the stock plans are subject to the plans' post-employment provisions in the event a participant ceases employment with the Company. Through September 30, 2019, a total of 977,214 restricted stock units have been distributed under these post-employment provisions. These distributions are included in the table above.

11. Income Taxes

Income tax expense for the nine months ended September 30, 2019 and 2018 differs from the U.S. federal statutory rate primarily due to the taxation treatment of income attributable to noncontrolling interests in IBG LLC. The income attributable to these noncontrolling interests is reported in the condensed consolidated statements of comprehensive income, but the related U.S. income tax expense attributable to these noncontrolling interests is not reported by the Company as it is generally the obligation of the noncontrolling interests. Income tax expense is also affected by the differing effective tax rates in foreign, state and local jurisdictions where certain of the Company's subsidiaries are subject to corporate taxation. Deferred income taxes arise primarily due to the amortization of the deferred tax assets recognized in connection with the common stock offerings (see Note 4), differences in the valuation of financial assets and liabilities, and for other temporary differences arising from the deductibility of compensation and depreciation expenses in different time periods for accounting and income tax return purposes.

As of and for the nine months ended September 30, 2019 and 2018, the Company had no unrecognized tax and no valuation allowances on deferred tax assets were required. The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. As of September 30, 2019, the Company is no longer subject to U.S. Federal and State income tax examinations for tax years prior to 2010, and to non-U.S. income tax examinations for tax years prior to 2008.

As of September 30, 2019, accumulated earnings held by non-U.S. subsidiaries totaled \$

1.2 billion (\$1.1 billion as of December 31, 2018). Of this amount, approximately \$0.2 billion (\$0.2 billion as of December 31, 2018) is attributable to earnings of the Company's foreign subsidiaries that are considered "pass-through" entities for U.S. income tax purposes. Since the Company accounts for U.S. income taxes on these earnings on a current basis, no additional U.S. tax consequences would result from the repatriation of these earnings other than that which would be due arising from currency fluctuations between the time the earnings are reported for U.S. tax purposes and when they are remitted. With respect to certain of these subsidiaries' accumulated earnings, approximately \$0.2 billion and \$0.2 billion as of September 30, 2019 and December 31, 2018, respectively, repatriation would result in additional foreign taxes in the form of dividend withholding tax imposed on the recipient of the distribution or dividend distribution tax imposed on the payor of the distribution. The Company has not provided for its proportionate share of these additional foreign taxes as it does not intend to repatriate these earnings in the foreseeable future. For the same reason, the Company has not provided deferred U.S. tax on cumulative translation adjustments associated with these earnings.

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

12. Leases

All of the Company's leases are classified as operating leases and primarily consist of real estate leases for corporate offices, data centers, and other facilities. As of September 30, 2019, the weighted-average remaining lease term on these leases is approximately nine years and the weighted-average discount rate used to measure the lease liabilities is approximately 4.04%. For the nine months ended September 30, 2019, right-of-use assets obtained under operating leases were \$138 million. The Company's lease agreements do not contain any residual value guarantees, restrictions or covenants.

The following table presents balances reported in the condensed consolidated statements of financial condition related to the Company's leases:

	<u>As of September 30, 2019</u>
	<u>(in millions)</u>
Right-of-use assets ¹	\$ 122
Lease liabilities ¹	\$ 126

(1) Right-of-use assets are included in other assets and lease liabilities are included in accounts payable, accrued expenses and other liabilities in the Company's condensed consolidated statements of financial condition.

The following table presents balances reported in the condensed consolidated statements of comprehensive income related to the Company's leases:

	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
	<u>September 30, 2019</u>	<u>September 30, 2019</u>
	<u>(in millions)</u>	
Operating lease cost	\$ 7	\$ 19
Variable lease cost	1	3
Total lease cost	<u>\$ 8</u>	<u>\$ 22</u>

The following table reconciles the undiscounted cash flows of the Company's leases as of September 30, 2019 to the present value of its operating lease payments:

	<u>September 30, 2019</u>
	<u>(in millions)</u>
2019 (remaining)	\$ 5
2020	19
2021	16
2022	16
2023	15
2024	13
Thereafter	69
Total undiscounted operating lease payments	153
Less: imputed interest	(27)
Present value of operating lease liabilities	<u>\$ 126</u>

Interactive Brokers Group, Inc. and Subsidiaries
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The Company's minimum annual lease commitments as of December 31, 2018, in accordance with ASC Topic 840, were as follows:

	December 31, 2018
Year	(in millions)
2019	\$ 18
2020	19
2021	16
2022	16
2023	15
Thereafter	83
	\$ 167

13. Commitments, Contingencies and Guarantees

Claims Against Customers

Over an extended period in 2018, a small number of the Company's brokerage customers had taken relatively large positions in a security listed on a major U.S. exchange. The Company extended margin loans against the security at a conservatively high collateral requirement. In December 2018, within a very short timeframe, this security lost a substantial amount of its value. During the quarter ended March 31, 2019, subsequent price declines in the stock have caused these accounts to fall into deficits, despite the Company's efforts to liquidate the customers' positions. For the nine months ended September 30, 2019, the Company has recognized a net aggregate loss of approximately \$

42 million. The maximum aggregate loss, which would occur if the security's price fell to zero and none of the debts were collected, would be approximately \$51 million. The Company is currently evaluating pursuing the collection of the debts, although debt collection efforts are inherently difficult and uncertain. The ultimate effect of this incident on the Company's results will depend upon market conditions and the outcome of the Company's debt collection efforts.

Litigation

The Company is subject to certain pending and threatened legal actions that arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. The Company has not been able to quantify the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of final resolution or the ultimate settlement. Management believes that the resolution of these actions will not have a material effect, if any, on the Company's business or financial condition, but may have a material impact on the results of operations for a given period.

The Company accounts for potential losses related to litigation in accordance with FASB ASC Topic 450, "Contingencies." As of September 30, 2019 and 2018, reserves provided for potential losses related to litigation matters were not material.

Trading Technologies Matter

On February 3, 2010, Trading Technologies International, Inc. ("Trading Technologies") filed a complaint in the U.S. District Court for the Northern District of Illinois, Eastern Division, against IBG LLC and IB LLC ("Defendants"). The complaint, as amended, alleges that the Defendants have infringed and continue to infringe twelve U.S. patents held by Trading Technologies. Trading Technologies is seeking, among other things, unspecified damages and injunctive relief. The Defendants filed an answer to Trading Technologies' amended complaint, as well as related counterclaims. The Defendants deny Trading Technologies' claims, assert that the asserted patents are not infringed and are invalid, and assert several other defenses as well.

The asserted patents were the subject of petitions before the United States Patent and Trademark Office ("USPTO") seeking Covered Business Method Review ("CBM Review"). The USPTO Patent Trial Appeal Board ("PTAB") found all claims of ten of the twelve asserted patents to be invalid. Of the remaining two patents, 53 of the 56 claims of one patent were held invalid and the other patent survived CBM Review proceedings. Appeals were filed by either Defendants or Trading Technologies on all PTAB determinations.

The United States Court of Appeals for the Federal Circuit vacated the CBM Review determinations of invalidity for four patents, concluding that these patents were not eligible for CBM Review. The District Court trial with respect to the four patents that survived CBM Review is scheduled for May 2020.

Interactive Brokers Group, Inc. and Subsidiaries
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While it is difficult to predict the outcome of the matter, the Company believes it has meritorious defenses to the allegations made in the complaint and intends to defend itself vigorously against them. However, litigation is inherently uncertain and there can be no guarantee that the Company will prevail or that the litigation can be settled on favorable terms.

Class Action Matter

On December 18, 2015, a former individual customer filed a purported class action complaint against IB LLC, IBG, Inc., and Thomas Frank, PhD, the Company's Executive Vice President and Chief Information Officer, in the U.S. District Court for the District of Connecticut. The complaint alleges that the purported class of IB LLC's customers were harmed by alleged "flaws" in the computerized system used to close out (i.e., liquidate) positions in customer brokerage accounts that have margin deficiencies. The complaint seeks, among other things, undefined compensatory damages and declaratory and injunctive relief.

On September 28, 2016, the District Court issued an order granting the Company's motion to dismiss the complaint in its entirety, and without providing plaintiff leave to amend. On September 28, 2017, plaintiff appealed to the United States Court of Appeals for the Second Circuit. On September 26, 2018, the Court of Appeals affirmed the dismissal of plaintiff's claims of breach of contract and commercially unreasonable liquidation but vacated and remanded back to the District Court plaintiff's claims for negligence. On November 30, 2018, the plaintiff filed a second amended complaint. The Company filed a motion to dismiss the new complaint on January 15, 2019, which was denied on September 30, 2019. The Company is exploring further means to have the case dismissed under Connecticut law. In any event, the Company does not believe that a purported class action is appropriate given the great differences in portfolios, markets and many other circumstances surrounding the liquidation of any particular customer's margin-deficient account. IB LLC and the related defendants intend to continue to defend themselves vigorously against the case and, consistent with past practice in connection with this type of unwarranted action, any potential claims for counsel fees and expenses incurred in defending the case may be fully pursued against the plaintiff.

Regulatory Matters

The Company is currently providing information to the Financial Industry Regulatory Authority ("FINRA"), the SEC, the Commodities and Futures Trading Commission ("CFTC") and the United States Department of Justice focused on anti-money laundering and Bank Secrecy Act practices. The Company periodically reviews these practices to make them more robust and to keep pace with changing regulatory standards, and the Company has been enhancing and augmenting its procedures and personnel in these areas over the past several years. While the outcome of the examinations and inquiries currently in progress cannot be predicted, the Company does not believe that they are likely to have a materially adverse effect on its results of operations.

Guarantees

Certain of the Operating Companies provide guarantees to securities and commodities clearing houses and exchanges which meet the accounting definition of a guarantee under FASB ASC Topic 460, "Guarantees." Under standard membership agreements, clearing house and exchange members are required to guarantee collectively the performance of other members. Under the agreements, if a member becomes unable to satisfy its obligations, other members would be required to meet shortfalls. In the opinion of management, the Operating Companies' liability under these arrangements is not quantifiable and could exceed the cash and securities they have posted as collateral. However, the potential for these Operating Companies to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried in the condensed consolidated statements of financial condition for these arrangements.

In connection with its retail brokerage business, IB LLC or other electronic brokerage Operating Companies perform securities and commodities execution, clearance and settlement on behalf of their customers for whom they commit to settle trades submitted by such customers with the respective clearing houses. If a customer fails to fulfill its settlement obligations, the respective Operating Company must fulfill those settlement obligations. No contingent liability is carried on the condensed consolidated statements of financial condition for such customer obligations.

Other Commitments

Certain clearing houses, clearing banks and firms used by certain Operating Companies are given a security interest in certain assets of those Operating Companies held by those clearing organizations. These assets may be applied to satisfy the obligations of those Operating Companies to the respective clearing organizations.

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

14. Segment and Geographic Information

The Company has two operating business segments: electronic brokerage and market making. These segments are supported by the corporate segment, which provides centralized services and executes the Company's currency diversification strategy. The Company conducts its electronic brokerage business through certain Interactive Brokers subsidiaries, which provide electronic trade execution and clearing services to customers worldwide. The Company conducts its remaining market making business (see Note 2 - Discontinued Operations and Costs Associated with Exit or Disposal Cost) principally through its Timber Hill subsidiaries on some of the world's leading exchanges and market centers, primarily in exchange-traded equities, equity options and equity-index options and futures.

Significant transactions and balances between the Operating Companies occur, primarily as a result of certain Operating Companies holding exchange or clearing organization memberships, which are utilized to provide execution and clearing services to affiliates. Charges for transactions between segments are designed to approximate full costs. Intra-segment and intra-region income and expenses and related balances have been eliminated in this segment and geographic information to reflect the external business conducted in each segment or geographic region. Corporate items include non-allocated corporate income and expenses that are not attributed to segments for performance measurement, net gains and losses on positions held as part of the Company's overall currency diversification strategy, corporate assets and eliminations. Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to total net revenues and income before income taxes for the three months and nine months ended September 30, 2019 and 2018, and total assets as of September 30, 2019 and December 31, 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Net revenues				
Electronic brokerage	\$ 506	\$ 444	\$ 1,435	\$ 1,352
Market making	17	16	52	59
Corporate	(57)	(21)	(50)	-
Total net revenues	<u>\$ 466</u>	<u>\$ 439</u>	<u>\$ 1,437</u>	<u>\$ 1,411</u>
Income before income taxes				
Electronic brokerage	\$ 331	\$ 292	\$ 883	\$ 866
Market making	8	7	25	25
Corporate	(58)	(23)	(63)	(4)
Total income before income taxes	<u>\$ 281</u>	<u>\$ 276</u>	<u>\$ 845</u>	<u>\$ 887</u>
			September 30,	December 31,
			2019	2018
	(in millions)			
Segment assets				
Electronic brokerage		\$ 66,082	\$ 58,631	
Market making		2,768	2,736	
Corporate		(1,046)	(820)	
Total assets		<u>\$ 67,804</u>	<u>\$ 60,547</u>	

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

The Company operates its automated global business in the U.S. and international markets on more than 125 electronic exchanges and market centers. A significant portion of the Company's net revenues are generated by subsidiaries operating outside the U.S. International operations are comprised of electronic brokerage and market making activities in 32 countries in Europe, Asia/Pacific and the Americas (outside the U.S.). The following table presents total net revenues and income before income taxes by geographic area for the three months and nine months ended September 30, 2019 and 2018. The geographic analysis presented below is based on the location of the subsidiaries in which the transactions are recorded. This geographic information does not reflect the way the Company's business is managed.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Net revenues				
United States	\$ 346	\$ 346	\$ 1,117	\$ 1,111
International	120	93	320	300
Total net revenues	<u>\$ 466</u>	<u>\$ 439</u>	<u>\$ 1,437</u>	<u>\$ 1,411</u>
Income before income taxes				
United States	\$ 222	\$ 237	\$ 717	\$ 762
International	59	39	128	125
Total income before income taxes	<u>\$ 281</u>	<u>\$ 276</u>	<u>\$ 845</u>	<u>\$ 887</u>

15. Regulatory Requirements

As of September 30, 2019, aggregate excess regulatory capital for all of the Operating Companies was \$6.2 billion.

IB LLC, TH LLC and IB Corp are subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act, IB LLC is also subject to the CFTC's minimum financial requirements (Regulation 1.17), and IBKRFS is subject to the Swiss Financial Market Supervisory Authority eligible equity requirement. IBA is subject to the Australian Securities Exchange liquid capital requirement, THC and IBC are subject to the Investment Industry Regulatory Organization of Canada risk adjusted capital requirement, IBUK is subject to the United Kingdom Financial Conduct Authority Capital Requirements Directive, IBHK is subject to the Hong Kong Securities Futures Commission liquid capital requirement, IBI is subject to the National Stock Exchange of India net capital requirements and IBSJ is subject to the Japanese Financial Supervisory Agency capital requirements. The following table summarizes capital, capital requirements and excess regulatory capital:

	Net Capital/ Eligible Equity	Requirement	Excess
	(in millions)		
IB LLC	\$ 5,386	\$ 422	\$ 4,964
TH LLC	44	-	44
IBKRFS	572	94	478
Other regulated Operating Companies	828	137	691
	<u>\$ 6,830</u>	<u>\$ 653</u>	<u>\$ 6,177</u>

Regulatory capital requirements could restrict the Operating Companies from expanding their business and declaring dividends if their net capital does not meet regulatory requirements. Also, certain Operating Companies are subject to other regulatory restrictions and requirements.

As of September 30, 2019, all of the regulated Operating Companies were in compliance with their respective regulatory capital requirements.

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

16. Related Party Transactions

Receivable from affiliate, reported in other assets in the condensed consolidated statement of financial condition, represents amounts advanced to Holdings and payable to affiliate represents amounts payable to Holdings under the Tax Receivable Agreement (see Note 4).

Included in receivables from and payables to customers in the condensed consolidated statements of financial condition as of September 30, 2019 and December 31, 2018 were accounts receivable from directors, officers and their affiliates of \$

17 million and \$13 million, respectively, and payables of \$787 million and \$918 million, respectively. The Company may extend credit to these related parties in connection with margin and securities loans. Such loans are (i) made in the ordinary course of business, (ii) are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the company, and (iii) do not involve more than the normal risk of collectability or present other unfavorable features.

17. Subsequent Events

As required by FASB ASC Topic 855, "Subsequent Events," the Company has evaluated subsequent events for adjustment to or disclosure in its condensed consolidated financial statements through the date the condensed consolidated financial statements were issued.

Except as disclosed in Note 4, no other recordable or disclosable events occurred.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes in Item 1, included elsewhere in this report. In addition to historical information, the following discussion also contains forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K filed with the Securities Exchange Commission ("SEC") on February 28, 2019 and elsewhere in this report.

Introduction

Interactive Brokers Group, Inc. (the "Company" or "IBG, Inc.") is a holding company whose primary asset is its ownership of approximately 18.5% of the membership interests of IBG LLC. The remaining approximately 81.5% of IBG LLC membership interests are held by IBG Holdings LLC ("Holdings"), a holding company that is owned directly and indirectly by our founder, Chairman and Chief Executive Officer, Mr. Thomas Peterffy and his affiliates, management and other employees of IBG LLC, and certain other members. The table below shows the amount of IBG LLC membership interests held by IBG, Inc. and Holdings as of September 30, 2019.

	IBG, Inc.	Holdings	Total
Ownership %	18.5%	81.5%	100.0%
Membership interests	76,748,855	338,670,642	415,419,497

We are an automated global electronic broker and market maker (although, we have substantially exited our options market making business - see Note 2 - Discontinued Operations and Costs Associated with Exit or Disposal Activities to the condensed consolidated financial statements elsewhere in this report). We custody and service accounts for hedge and mutual funds, registered investment advisers, proprietary trading groups, introducing brokers and individual investors. We specialize in routing orders and executing and processing trades in securities, futures and foreign exchange instruments on more than 125 electronic exchanges and market centers around the world. Since our inception in 1977, we have focused on developing proprietary software to automate broker-dealer functions. The proliferation of electronic exchanges over nearly the last three decades has provided us with the opportunity to integrate our software with an increasing number of exchanges and market centers into one automatically functioning, computerized platform that requires minimal human intervention.

When we use the terms "we," "us," and "our," we mean IBG, Inc. and its subsidiaries for the periods presented.

Business Segments

We report our results in two operating business segments, electronic brokerage and market making (being discontinued). These segments are analyzed separately as these are the two principal business activities from which we derive our revenues and to which we allocate resources.

Electronic Brokerage. We conduct our electronic brokerage business through certain Interactive Brokers ("IB") subsidiaries. As an electronic broker, we execute, clear and settle trades globally for both institutional and individual customers. Capitalizing on our proprietary technology, IB's systems provide our customers with the capability to monitor multiple markets around the world simultaneously and to execute trades electronically in these markets at a low cost, in multiple products and currencies, from a single trading account. We offer our customers access to all classes of tradable, primarily exchange-listed products, including stocks, bonds, options, futures, forex and mutual funds traded on more than 125 exchanges and market centers in 33 countries and in 24 currencies seamlessly around the world. The emerging complexity of multiple market centers has provided us with the opportunity of building and continuously adapting our order routing software to secure excellent execution prices. Our customer base is diverse with respect to geography and segments. Currently, approximately 69% of our customers reside outside the U.S. in over 200 countries and territories, and over 50% of new customers come from outside the U.S. Approximately 65% of our customers' equity is in institutional accounts such as hedge funds, financial advisors, proprietary trading desks and introducing brokers. Specialized products and services that we have developed are successfully attracting these accounts. For example, we offer prime brokerage services, including capital introduction and securities lending to hedge funds; our model portfolio technology and automated share allocation and rebalancing tools are particularly attractive to financial advisors; and our trading platform and low pricing attract introducing brokers.

We provide a host of analytical and business tools such as Investors' MarketplaceSM, the first electronic meeting place that brings together individual investors, financial advisors, money managers, fund managers, research analysts, technology providers, business developers and administrators, allowing them to interact to form connections and conduct business. EmployeeTrackSM is widely used by compliance officers of financial institutions to streamline the process of tracking their employees' brokerage activities. The

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Probability Lab[®] allows our customers to analyze option strategies under various market assumptions. Risk NavigatorSM is a real-time market risk management platform that allows our customers to measure risk exposure across multiple asset classes around the globe. Portfolio BuilderSM allows our customers to set up an investment strategy based on research and rankings from top research providers and fundamental data. Interactive AdvisorsSM recruits registered financial advisors, vets them, analyzes their investment track records, groups them by their risk profile, and allows retail investors to assign their accounts to be traded by one or more advisors. In addition, our Greenwich ComplianceSM affiliate offers direct expert registration and start-up compliance services, as well as answers to basic day-to-day compliance questions for experienced investors and traders looking to start their own investment advisor firms. Greenwich ComplianceSM professionals have regulatory and industry experience, and they can help investment advisors trading on the IB platform meet their registration and compliance needs.

We have expanded the range of financial services we offer our customers through our Integrated Investment Management program, where customers can perform many different types of transactions from a single account. Our Interactive Brokers Debit Mastercard allows customers to spend and borrow directly against their account and to make purchases and ATM withdrawals anywhere Debit Mastercard^{®1} is accepted around the world. Our Insured Bank Deposit Sweep Program provides customers with up to \$2,500,000 of Federal Deposit Insurance Corporation (“FDIC”) insurance on their eligible cash balances in addition to the existing \$250,000 Securities Investor Protection Corporation (“SIPC”) coverage, for a maximum coverage of \$2,750,000. Bill Pay allows customers to make electronic or check payments in the U.S. It can be configured for one-time or recurring payments and permits customers to schedule future payments. In addition, our customers can now have their paychecks or other recurring payments directly deposited into their brokerage account.

We recently launched our “BET, LEARN, WIN” promotion, a Simulated Sports Betting Exchange that operates as a simulated peer-to-peer market where participants can buy, sell and trade simulated bets on real sporting events. As part of the launch, we are offering the first 2.2 million participants who open a Simulated Betting account \$1,000 in virtual currency for trading these contracts. Winnings in Simulated Sports Betting accounts may be converted, by eligible participants, into up to \$1,000 of commission credits, on a one-time basis, to be used in an Interactive Brokers brokerage account. This promotion is intended to teach participants about the probabilistic nature of markets, trading and investing and to introduce new customers to the Interactive Brokers platform. The promotion ends on December 31, 2020 or when all awards are distributed, whichever occurs first.

IBKR LiteSM is a new offering that provides unlimited commission-free trades on U.S. exchange-listed stocks and ETFs to certain U.S. customers. IBKR LiteSM was designed to meet the needs of investors who are seeking a simple, commission-free way to trade U.S. exchange-listed stocks and ETFs and do not wish to consider our efforts to obtain greater price improvement through our IB SmartRoutingSM system. The new offering complements Interactive Brokers’ existing service, which has been rebranded IBKR ProSM. New and existing customers now have the ability to select between these two levels of service.

Market Making. As previously announced, we transferred our U.S. options market making operations to Two Sigma Securities, LLC effective September 29, 2017 and also exited the majority of our options market making activities outside the U.S. by December 31, 2017. We intend to continue conducting certain proprietary trading activities in stocks and related instruments to facilitate our electronic brokerage customers’ trading in products such as ETFs, ADRs, CFDs and other financial instruments, as well as exchange-traded market making activities in a few select markets outside of the U.S. However, we do not expect the facilitation activity to be of sufficient size as to require reporting as a separate segment after we discontinue our options market making activities.

As a market maker, in the few select markets in which we operate, we provide liquidity by offering competitively tight bid/offer spreads over a broad base of tradable, exchange-listed products. As principal, we commit our own capital and derive revenues or incur losses from the difference between the price paid when securities are bought and the price received when those securities are sold. Because we provide continuous bid and offer quotations and we are continuously both buying and selling quoted securities, we may have either a long or a short position in a particular product at a given point in time. Our entire portfolio is evaluated many times per second and continuously rebalanced throughout the trading day, thus minimizing the risk of our portfolio at all times.

The operating business segments are supported by our corporate segment which provides centralized services and executes our currency diversification strategy.

Business Environment

During the third quarter of 2019, U.S. market volatility, as measured by the average Chicago Board Options Exchange Volatility Index (“VIX[®]”), rose 23% over the low volatility seen in the quarter ended September 30, 2018. As has been the case in recent quarters, the index fluctuated over the course of the quarter, reflecting greater geopolitical and economic uncertainty and generating higher trading activity. In contrast, during the prior year quarter, the VIX exhibited a narrower range. Among our customer base,

¹ Debit Mastercard is a trademark registered to Mastercard International Incorporated Corporation, Delaware, 2000 Purchase Street, Purchase, New York 10577-2405.

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volatility is strongly correlated with customer trading activity across product types. With positive customer account and asset growth, we would expect our customers' trading activity to outpace general market volume measures. In periods with widely rising and falling volatility, as occurred in the current quarter, trading activity may not achieve the rate of growth in our accounts and client assets.

U.S. overnight interest rates fell this quarter as the Federal Reserve cut interest rates twice. Despite the forward yield curve turning flat to inverted during the quarter, we earned more net interest income on interest-sensitive assets as previous-period investments in U.S. Treasury securities with higher rates matured with a lag time to overnight rate cuts.

Equity market indices around the globe were predominantly up in the current quarter, with the S&P 500 index rising 2% year over year, though decreases occurred in some European and Asian markets. Amid a positive equity market environment, customer account growth remained robust, with total customer accounts increasing 16% from the prior year quarter to 666 thousand. Customer equity increased 10% to \$156.6 billion as healthy inflows from customers continued, aided by generally rising securities markets, which positively impacted the value of customers' holdings. Institutional customers, such as hedge funds, mutual funds, introducing brokers, proprietary trading groups and financial advisors, are a growing piece of our business, and comprised approximately 50% of total accounts as of September 30, 2019, versus 51% in the prior year quarter. We continue to attract large customers that seek our superior technology and execution capabilities, high interest rates on cash balances, and low costs, as well as our securities finance services, including margin lending and short sale support.

The following is a summary of the key profit drivers that affect our business and how they compared to the prior year quarter:

Volatility. Average U.S. market volatility, as measured by the VIX, increased 23% versus the prior year quarter. Higher volatility improves our electronic brokerage performance because it generally corresponds to higher trading volumes; and, likewise, lower volatility generally corresponds to lower trading volumes.

Global trading volumes. According to industry data, average daily volumes in U.S. exchange-listed equity-based options rose by 8%, in U.S. futures by 30%, and in U.S. listed cash equities by 20%. As noted above, the third quarter of 2019 showed higher trading activity with higher volatility, compared to the prior year quarter, affecting industry and Company volumes. It is important to note that while U.S. options, futures and cash equities volumes represent most of our volumes and are readily comparable measures, they reflect only a portion of the global volumes that generate our commission revenues. See tables on pages 46-47 of this Quarterly Report on Form 10-Q for additional details regarding our trade volumes, contract and share volumes, and brokerage statistics.

Interest rates. The U.S. Federal Reserve cut the target federal funds rate by 25 basis points twice this quarter, after a series of four 25 basis point hikes in 2018. Rates in other currencies were generally down this quarter versus the prior year quarter. Our interest rates on customer cash balances and margin loans are based on fixed spreads to benchmark rates. Hence, in a falling rate environment, net interest income is typically reduced for interest-sensitive assets, though increases can be generated from rising customer balances and opportunities to invest longer-term when the yield curve is positive.

In light of a flattening, and at times inverted, yield curve, we continued to shorten the duration of our U.S. government securities portfolio. The majority of our segregated cash is invested in U.S. government securities and related instruments, so the increases in rates during 2018, partially offset by the decreases this quarter, increased the interest rate we earned on these balances this quarter, versus the prior year quarter. Our margin balances declined this quarter due, in part, to a market environment in which certain investors chose to take on less risk, versus the prior year quarter. Though the four increases in rates during 2018, partially offset by the two rate decreases this quarter, increased the yield we earned on our U.S. dollar customer margin loans, actual margin loan interest declined slightly as a result of lower balances. Because the interest we pay on customer cash is tied to benchmark rates, falling rates lower the interest we pay on our customer cash balances.

Electronic brokerage net interest income grew 20% in the current quarter, compared to the prior year quarter. Over that time period, average customer credit balances rose 11% due, in part, to an inflow of new accounts, while average customer margin loan balances decreased 11%, primarily due to a market environment in which certain investors chose to take on less risk. U.S. benchmark interest rates were higher in the current quarter versus the prior year quarter, leading to higher rates paid on customer credit balances and higher rates earned on customer margin loans and on segregated cash and securities.

Because we pay among the highest rates in the brokerage industry on qualified customer cash balances, and charge among the lowest rates on margin loans, we attract customers who seek to maximize their yields and minimize their costs. We believe our high yields on qualified cash balances and low rates on margin borrowings are important factors that attract customers to our platform.

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Currency fluctuations. As a global electronic broker and market maker trading on exchanges around the world in multiple currencies, we are exposed to foreign currency risk. We actively manage this exposure by keeping our net worth in proportion to a defined basket of 14 currencies we call the “GLOBAL” to diversify our risk and to align our hedging strategy with the currencies that we use in our business. Because we report our financial results in U.S. dollars, the change in the value of the GLOBAL versus the U.S. dollar affects our earnings. During the current quarter the value of the GLOBAL, as measured in U.S. dollars, decreased 0.84% compared to its value as of June 30, 2019, which had a negative impact on our comprehensive earnings for the current quarter.

A discussion of our approach for managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

Political uncertainty - Brexit. In March 2017, following a referendum, the United Kingdom (“U.K.”) invoked Article 50 of the Lisbon Treaty thereby notifying the European Union (“E.U.”) of its intention to withdraw from the E.U. The resolution of the terms and conditions of the U.K.’s departure from the E.U., commonly referred to as “Brexit”, has been on-going over the last two years with a current end date of January 31, 2020. The uncertainty of a favorable exit from the E.U. may increase volatility in the global financial markets over the near term and, depending on the final terms of the withdrawal agreement, may negatively impact the manner in which we conduct business in Europe. We conduct business in the E.U. through our U.K. affiliate, Interactive Brokers (U.K.) Limited (“IBUK”). We have sought to address Brexit-related risks by, among other things, applying for appropriate licenses in Europe. Depending on Brexit’s final terms and timing, depending on the status of our E.U. license applications, and depending on how the E.U. and each European jurisdiction treat U.K. investment firms in the wake of a possible “no-deal” Brexit, we could be unable to fully service some E.U. customers for some period of time, although we consider this unlikely.

We continue to monitor the situation and are taking steps to assess and mitigate potential operational, legal and regulatory risks.

Financial Overview

Third Quarter Results: Diluted earnings per share were \$0.45 for the quarter ended September 30, 2019 (“current quarter”), compared to diluted earnings per share of \$0.51 for the quarter ended September 30, 2018 (“prior year quarter”). The calculation of diluted earnings per share is detailed in Note 4 to the condensed consolidated financial statements, elsewhere in this report.

Diluted earnings per share on comprehensive income were \$0.39 for the current quarter, compared to \$0.50 for the prior year quarter.

In connection with our currency diversification strategy (i.e., GLOBALs) as of September 30, 2019, approximately 29% of our equity was denominated in currencies other than the U.S. dollar. In the current quarter, our currency diversification strategy decreased our comprehensive earnings by \$75 million (compared to a decrease of \$27 million in the prior year quarter), as the U.S. dollar value of the GLOBAL decreased by approximately 0.84%, compared to its value as of June 30, 2019. The effects of our currency diversification strategy are reported as (1) a component of other income in the condensed consolidated statement of comprehensive income and (2) OCI in the condensed consolidated statement of financial condition and the condensed consolidated statement of comprehensive income. The full effect of the GLOBAL is captured in comprehensive income.

A discussion of our approach for managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

Consolidated: For the current quarter, our net revenues were \$466 million and income before income taxes was \$281 million, compared to net revenues of \$439 million and income before income taxes of \$276 million in the prior year quarter. The increase in income before income taxes in the current quarter was mainly driven by a \$47 million increase in net interest income, and a \$20 million increase in commissions revenue; partially offset by a \$40 million decrease in other income, and a \$22 million increase in non-interest expenses. Our pre-tax profit margin was 60%, compared to 63% for the prior year quarter.

Electronic Brokerage: For the current quarter, income before income taxes in our electronic brokerage segment increased \$39 million, or 13%, compared to the prior year quarter, driven by higher net interest income and higher commissions revenue, partially offset by lower other income and higher non-interest expenses. Net revenues increased 14%, mainly from a 20% increase in net interest income, driven by higher U.S. benchmark interest rates and higher average customer credit balances, and a 12% increase in commissions revenue, primarily driven by higher options and futures contract volumes; partially offset by a 14% decrease in other income led by a \$2 million net mark-to-market loss on our U.S. government securities portfolio (compared to a \$1 million net mark-to-market gain in the prior year quarter) and lower risk exposure and market data fee income. Pre-tax profit margin was 65% for the current quarter, compared to 66% for the prior year quarter. Customer accounts grew 16% and customer equity increased 10% from the prior year quarter. For the current quarter, total DARTs for cleared and execution-only customers increased 13% to 859 thousand, compared to 763 thousand for the prior year quarter.

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Market Making: For the current quarter, income before income taxes in our market making segment increased \$1 million, compared to the prior year quarter, to \$8 million, primarily due to higher net interest income, largely offset by lower other income, while operating costs in the remaining operations remained unchanged.

Corporate: In June 2018 we consummated a strategic investment in Up Fintech Holding Limited (“Tiger Brokers”) by purchasing preferred shares that represented a 7.4% beneficial ownership interest. On March 20, 2019, Tiger Brokers priced its initial public offering (“IPO”) of American Depositary Shares listed on NASDAQ Global Select market and, concurrently with the IPO, we purchased unregistered ordinary shares in Tiger Brokers through a private placement offering which transactions resulted in a beneficial ownership interest of 7.6%. For the quarter ended September 30, 2019, we have recognized a mark-to-market loss of approximately \$13 million in our investment in Tiger Brokers. For the nine months ended September 30, 2019 we recognized a net mark-to-market gain of \$16 million on this investment.

Nine-Month Results: Diluted earnings per share were \$1.52 for the nine months ended September 30, 2019 (“current nine-month period”), compared to \$1.71 for the nine months ended September 30, 2018 (“prior year nine-month period”). The calculation of diluted earnings per share is detailed in Note 4 to the condensed consolidated financial statements, elsewhere in this report.

Diluted earnings per share on comprehensive income were \$1.49 for the current nine-month period, compared to \$1.54 for the prior year nine-month period.

Consolidated: For the current nine-month period, our net revenues were \$1,437 million and income before income taxes was \$845 million, compared to net revenues of \$1,411 million and income before income taxes of \$887 million in the prior year nine-month period. The decrease in income before income taxes in the current nine-month period was mainly driven by a 6% decrease in commissions revenue, a 38% decrease in trading gains, a 31% decrease in other income, a 6% increase in employee compensation and benefits expense, and a \$43 million increase in customer bad debt expense; partially offset by a 16% increase in net interest income and an 2% decrease in execution, clearing and distribution fees.

Electronic Brokerage: For the current nine-month period, income before income taxes in our electronic brokerage segment increased \$17 million, or 2%, compared to the prior year nine-month period, driven by higher net interest income, higher other income and lower execution, clearing and distribution fees; partially offset by lower commissions revenue, higher customer bad debt expenses, higher employee compensation and benefits expenses, and higher general and administrative expenses. Net revenues increased 6%, mainly from a 17% increase in net interest income, driven by higher U.S. benchmark interest rates and higher average customer credit balances; and a 6% increase in other income led by higher net mark-to-market gains on our U.S. government securities portfolio, higher fees earned from our FDIC sweep program, and higher account activity fee income; partially offset by a 6% decrease in commissions revenue compared to the prior year nine-month period. Pre-tax profit margin was 62% for the current nine-month period, compared to 64% for the prior year nine-month period. For the current nine-month period, total DARTs for cleared and execution-only customers increased 2% to 845 thousand, compared to 832 thousand for the prior year nine-month period.

As previously disclosed, over an extended period in 2018, a small number of our brokerage customers had taken relatively large positions in a security listed on a major U.S. exchange. We extended margin loans against the security at a conservatively high collateral requirement. In December 2018, within a very short timeframe, this security lost a substantial amount of its value. The customer accounts were well margined and at December 31, 2018 they had incurred losses but had not fallen into any deficits. During the quarter ended March 31, 2019, subsequent price declines in the stock caused these accounts to fall into deficits, despite our efforts to liquidate the customers’ positions. During the nine months ended September 30, 2019, we recognized a net aggregate loss of approximately \$42 million. The maximum aggregate loss, which would occur if the security’s price fell to zero and none of the debts were collected, would be approximately \$51 million. The ultimate effect of this incident on our results will depend upon market conditions and the outcome of our debt collection efforts.

Market Making: For the current nine-month period, income before income taxes in our market making segment was \$25 million unchanged from the prior year nine-month period, driven by lower trading gains, offset by higher net interest income and lower operating costs on the remaining operations.

In the third quarter of 2017, we completed the transfer of our U.S. options market making business to Two Sigma Securities, LLC and by the end of 2017 we had exited the majority of our market making activities outside the U.S.

Pursuant to the agreement with Two Sigma Securities, LLC, we have the opportunity for future income from an earn-out agreement, based on the performance of the options market making business under Two Sigma Securities, LLC’s control. Under the agreement, we would earn a share of any U.S. profits after variable costs and other agreed-upon costs for three years; and a separate share of any non-U.S. profits after variable costs for four years. The agreement provides Two Sigma Securities, LLC the opportunity to enter non-U.S. parts of this business and, while it does not preclude us from participating in those markets, the earn-out would be effective only in markets where we did not compete.

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Certain Trends and Uncertainties

We believe that our current operations may be favorably or unfavorably impacted by the following trends that may affect our financial condition and results of operations:

- Retail and institutional broker-dealer participation in the equity markets has fluctuated over the past few years due to investor sentiment, market conditions and a variety of other factors. Transaction volumes may not be sustainable and are not predictable.
- Additional consolidation among market centers may adversely affect the value of our SmartRoutingSM software.
- Benchmark interest rates have fluctuated over the past years due to economic conditions. Changes in interest rates may not be predictable.
- Price competition in commissions and other fees among broker-dealers may intensify.
- Scrutiny of equity and options market makers, hedge funds and soft dollar practices by regulatory and legislative authorities has increased. New legislation or modifications to existing regulations and rules could occur in the future.
- Our market making activities will continue to be impacted by the following trends until we complete its wind-down.
 - The effects of market structure changes, competition (in particular, from high frequency traders) and market conditions have, during certain periods, exerted downward pressure on bid/offer spreads realized by market makers.
 - In an effort to improve the quality of their executions as well as to increase efficiencies, market makers have increased the level of automation within their operations, which may allow them to compete more effectively with us.
 - A driver of our market making profits is the relationship between actual and implied volatility in the equities markets. The cost of maintaining our conservative risk profile is based on implied volatility, while our profitability, in part, is based on actual volatility. Hence, our profitability is increased when actual volatility runs above implied volatility and it is decreased when actual volatility falls below implied volatility. Implied volatility tends to lag actual volatility.

See “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K, filed with the SEC on February 28, 2019, and elsewhere in this report for a discussion of other risks that may affect our financial condition and results of operations.

Trading Volumes and Brokerage Statistics

The following tables present historical trading volumes and brokerage statistics for our business. However, volumes are not the only drivers in our business.

TRADE VOLUMES: (in 000's, except %)

Period	Market Making Trades	% Change	Brokerage Cleared Trades	% Change	Brokerage Non Cleared Trades	% Change	Total Trades	% Change	Avg. Trades per U.S. Trading Day
2016	64,038		259,932		16,515		340,485		1,354
2017	31,282	(51%)	265,501	2%	14,835	(10%)	311,618	(8%)	1,246
2018	18,663	(40%)	328,099	24%	21,880	47%	368,642	18%	1,478
3Q2018	4,795		71,646		5,293		81,734		1,308
3Q2019	4,738	(1%)	78,793	10%	6,566	24%	90,097	10%	1,419
2Q2019	3,853		74,269		6,827		84,949		1,348
3Q2019	4,738	23%	78,793	6%	6,566	(4%)	90,097	6%	1,419

CONTRACT AND SHARE VOLUMES: (in 000's, except %)

TOTAL

Period	Options (contracts)	% Change	Futures ⁽¹⁾ (contracts)	% Change	Stocks (shares)	% Change
2016	572,834		143,287		155,439,227	
2017	395,885	(31%)	124,123	(13%)	220,247,921	42%
2018	408,406	3%	151,762	22%	210,257,186	(5%)
3Q2018	92,297		29,936		45,572,711	
3Q2019	103,972	13%	36,124	21%	43,107,364	(5%)
2Q2019	96,007		32,424		42,995,205	
3Q2019	103,972	8%	36,124	11%	43,107,364	0%

MARKET MAKING

Period	Options (contracts)	% Change	Futures ⁽¹⁾ (contracts)	% Change	Stocks (shares)	% Change
2016	307,377		14,205		13,082,887	
2017	102,025	(67%)	5,696	(60%)	7,139,622	(45%)
2018	49,554	(51%)	3,277	(42%)	11,347,811	59%
3Q2018	11,805		758		2,995,942	
3Q2019	10,848	(8%)	697	(8%)	2,082,317	(30%)
2Q2019	10,008		621		2,598,531	
3Q2019	10,848	8%	697	12%	2,082,317	(20%)

(1) Futures contract volume includes options on futures.

BROKERAGE TOTAL

Period	Options (contracts)	% Change	Futures ⁽¹⁾ (contracts)	% Change	Stocks (shares)	% Change
2016	265,457		129,082		142,356,340	
2017	293,860	11%	118,427	(8%)	213,108,299	50%
2018	358,852	22%	148,485	25%	198,909,375	(7%)
3Q2018	80,492		29,178		42,576,769	
3Q2019	93,124	16%	35,427	21%	41,025,047	(4%)
2Q2019	85,999		31,803		40,396,674	
3Q2019	93,124	8%	35,427	11%	41,025,047	2%

BROKERAGE CLEARED

Period	Options (contracts)	% Change	Futures ⁽¹⁾ (contracts)	% Change	Stocks (shares)	% Change
2016	227,413		128,021		138,523,932	
2017	253,304	11%	116,858	(9%)	209,435,662	51%
2018	313,795	24%	146,806	26%	194,012,882	(7%)
3Q2018	70,233		28,922		41,406,443	
3Q2019	80,840	15%	35,108	21%	39,891,867	(4%)
2Q2019	71,524		31,564		39,086,399	
3Q2019	80,840	13%	35,108	11%	39,891,867	2%

(1) Futures contract volume includes options on futures.

BROKERAGE STATISTICS:

(in 000's, except % and where noted)

Year over Year	3Q2019	3Q2018	% Change
Total Accounts	666	576	16%
Customer Equity (in billions) ⁽¹⁾	\$ 156.6	\$ 142.5	10%
Cleared DARTs	777	696	12%
Total Customer DARTs	859	763	13%

Cleared Customers (in \$'s, except DART per account)

Commission per DART	\$ 3.69	\$ 3.78	(2%)
DART per Avg. Account (Annualized)	297	312	(5%)
Net Revenue per Avg. Account (Annualized)	\$ 2,995	\$ 3,109	(4%)

Consecutive Quarters

	3Q2019	2Q2019	% Change
Total Accounts	666	645	3%
Customer Equity (in billions) ⁽¹⁾	\$ 156.6	\$ 153.1	2%
Cleared DARTs	777	740	5%
Total Customer DARTs	859	828	4%

Cleared Customers (in \$'s, except DART per account)

Commission per DART	\$ 3.69	\$ 3.68	0%
DART per Avg. Account (Annualized)	297	293	1%
Net Revenue per Avg. Account (Annualized)	\$ 2,995	\$ 2,863	5%

(1) Excludes non-customers.

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Results of Operations

The tables in the period comparisons below provide summaries of our consolidated results of operations. The period-to-period comparisons below of financial results are not necessarily indicative of future results.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in millions, except share and per share amounts)				
Revenues				
Commissions	\$ 187	\$ 167	\$ 538	\$ 572
Interest income	468	363	1,308	1,007
Trading gains	7	7	20	32
Other income (loss)	(19)	21	83	121
Total revenues	643	558	1,949	1,732
Interest expense	177	119	512	321
Total net revenues	466	439	1,437	1,411
Non-interest expenses				
Execution, clearing and distribution fees	68	57	192	196
Employee compensation and benefits	67	63	213	201
Occupancy, depreciation and amortization	15	12	43	35
Communications	7	7	19	20
General and administrative	30	25	80	70
Customer bad debt	(2)	(1)	45	2
Total non-interest expenses	185	163	592	524
Income before income taxes	281	276	845	887
Income tax expense	20	18	50	52
Net income	261	258	795	835
Less net income attributable to noncontrolling interests	225	219	678	709
Net income available for common stockholders	\$ 36	\$ 39	\$ 117	\$ 126
Earnings per share				
Basic	\$ 0.46	\$ 0.52	\$ 1.54	\$ 1.73
Diluted	\$ 0.45	\$ 0.51	\$ 1.52	\$ 1.71
Weighted average common shares outstanding				
Basic	76,742,789	74,649,469	75,910,080	72,879,007
Diluted	77,348,976	75,360,089	76,646,487	73,745,640
Comprehensive income				
Net income available for common stockholders	\$ 36	\$ 39	\$ 117	\$ 126
Other comprehensive income				
Cumulative translation adjustment, before income taxes	(6)	(1)	(3)	(14)
Income taxes related to items of other comprehensive income	-	-	-	(1)
Other comprehensive income (loss), net of tax	(6)	(1)	(3)	(13)
Comprehensive income available for common stockholders	\$ 30	\$ 38	\$ 114	\$ 113
Comprehensive income attributable to noncontrolling interests				
Net income attributable to noncontrolling interests	\$ 225	\$ 219	\$ 678	\$ 709
Other comprehensive income - cumulative translation adjustment	(22)	(2)	(11)	(60)
Comprehensive income attributable to noncontrolling interests	\$ 203	\$ 217	\$ 667	\$ 649

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Three Months Ended September 30, 2019 (“current quarter”) compared to the Three Months Ended September 30, 2018 (“prior year quarter”)***Net Revenues***

Total net revenues, for the current quarter, increased \$27 million, or 6%, compared to the prior year quarter, to \$466 million. The increase in net revenues was due to higher net interest income and commissions revenue, partially offset by lower other income.

Commissions

Commissions, for the current quarter, increased \$20 million, or 12%, compared to the prior year quarter, to \$187 million, driven by higher customer trading volumes in options and futures, and higher average commission per share despite lower volumes in stocks. Total customer options and futures contract volumes increased 16% and 21%, respectively, while stock share volume decreased 4%, compared to the prior year quarter. Total DARTs for cleared and execution-only customers, for the current quarter, increased 13% to 859 thousand, compared to 763 thousand for the prior year quarter. DARTs for cleared customers, i.e., customers for whom we execute trades as well as clear and carry positions, for the current quarter, increased 12% to 777 thousand, compared to 696 thousand for the prior year quarter. Average commission per DART for cleared customers, for the current quarter, decreased 2% to \$3.69, compared to \$3.78 for the prior year quarter, reflecting smaller average order sizes across most product types.

Interest Income and Interest Expense

Net interest income (interest income less interest expense), for the current quarter, increased \$47 million, or 19%, compared to the prior year quarter, to \$291 million. The increase in net interest income was driven by higher average customer credit balances and higher benchmark interest rates. Net interest income on customer balances, for the current quarter, increased \$18 million, compared to the prior year quarter, driven by a \$5.2 billion increase in average customer credit balances, a portion of which were invested in interest-bearing U.S. government securities, and a 0.27% increase in the average Federal Funds effective rate to 2.19%, partially offset by a \$3.2 billion decrease in average customer margin loans. As a result of the increases in the Federal Funds effective rate, interest expense on customer credit balances denominated in U.S. dollars increased from the prior year quarter, in part, as we passed along more interest to our customers. In addition, we introduced a new benefit to customers, effective January 1, 2019, which pays a proportionate amount of interest on cash balances in securities accounts with less than \$100 thousand in equity. The increase in benchmark rates also drove higher interest income earned on the investment of customer segregated cash and on margin lending to customers. We earn income on securities loaned and borrowed to support customer long and short stock holdings in margin accounts. In addition, our Stock Yield Enhancement Program provides an opportunity for customers with fully-paid stock to allow us to lend it out. We pay customers a rebate on the cash collateral generally equal to 50% of the income we earn from lending the shares. We place cash collateral securing the loans in the customer's account.

In the current quarter, average securities borrowed increased 14%, to \$4.0 billion and average securities loaned increased 7%, to 4.2 billion, compared to the prior year quarter. Net interest earned from securities lending is affected by the level of demand for securities positions held by our customers and in our market making business. During the current quarter, net interest earned from securities lending transactions increased \$23 million, or 43%, compared to the prior year quarter, driven by high demand for several hard-to-borrow securities that investors were selling short. It should be noted that securities lending transactions entered into to support customer activity may produce interest income (expense) that is offset by interest expense (income) related to customer balances.

The Company measures return on interest-earning assets using net interest margin (“NIM”). NIM is computed by dividing the annualized net interest income by the average interest-earning assets for the period. Interest-earning assets consist of cash and securities segregated for regulatory purposes (including U.S. government securities and securities purchased under agreements to resell), customer margin loans, securities borrowed, other interest-earning assets (solely firm assets) and customer cash balances swept into FDIC insured banks as part of our Insured Bank Deposit Sweep Program. Interest-bearing liabilities consist of customer credit balances and securities loaned.

Yields are generally a reflection of benchmark interest rates in each currency in which the Company and its customers hold cash balances. Because a substantial portion of customer cash and margin loans are denominated in currencies other than the U.S. dollar, changes in U.S. benchmark interest rates do not impact the total amount of segregated cash and securities, customer margin loans and customer credit balances. Furthermore, because interest is paid only on eligible cash credit balances (i.e., securities accounts with balances over a threshold amount, which varies by currency) changes in benchmark interest rates are not passed through to the total amount of customer credit balances. Finally, the Company's policies with respect to currencies with negative interest rates impact the yields on segregated cash and customer credit balances as effective interest rates in those currencies fluctuate.

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Generally, as benchmark interest rates rise, a larger portion of the interest earned on securities lending transactions is reported as net interest income on “Segregated cash and securities, net” instead of “Securities borrowed and loaned, net” because interest earned on cash collateral held in specially designated bank accounts for the benefit of customers, in accordance with U.S. customer protection rules, increases. The following table presents net interest income information corresponding to interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30,	
	2019	2018
	(in millions)	
Average interest-earning assets		
Segregated cash and securities	\$ 29,443	\$ 20,923
Customer margin loans	26,134	29,339
Securities borrowed	4,036	3,531
Other interest-earning assets	5,362	4,371
FDIC sweeps ¹	2,151	1,423
	<u>\$ 67,126</u>	<u>\$ 59,587</u>
Average interest-bearing liabilities		
Customer credit balances	\$ 53,762	\$ 48,544
Securities loaned	4,160	3,882
	<u>\$ 57,922</u>	<u>\$ 52,426</u>
Net Interest income		
Segregated cash and securities, net	\$ 153	\$ 91
Customer margin loans ²	175	182
Securities borrowed and loaned, net ³	77	54
Customer credit balances, net ^{2,3}	(137)	(100)
Other net interest income ^{1,4}	31	25
Net interest income ⁴	<u>\$ 299</u>	<u>\$ 252</u>
Net interest margin ("NIM")	<u>1.77%</u>	<u>1.68%</u>
Annualized Yields		
Segregated cash and securities	2.06%	1.73%
Customer margin loans	2.66%	2.46%
Customer credit balances	1.01%	0.82%

- (1) Represents the average amount of customer cash swept into FDIC-insured banks as part of our Insured Bank Deposit Sweep Program. This item is not recorded in the Company's condensed consolidated statements of financial condition. Income derived from program deposits is reported in other net interest income in the table above.
- (2) Interest income and interest expense on customer margin loans and customer credit balances, respectively, are calculated on daily cash balances within each customer's account on a net basis, which may result in an offset of balances across multiple account segments (e.g., between securities and commodities segments).
- (3) During the quarter ended December 31, 2018, we reclassified components of net interest income related to interest paid on short sale proceeds and as such, prior period amounts have been adjusted to conform to the current period presentation. For the quarter ended September 30, 2018, (\$21) million has been reclassified from net interest income on “Securities borrowed and loaned, net” to “Customer credit balances, net”.
- (4) Includes income from financial instruments which has the same characteristics as interest, but is reported in other income in the Company's condensed consolidated statements of comprehensive income, of \$8 million for the three months ended September 30, 2019 and 2018, respectively.

Trading gains, for the current quarter, were \$7 million, unchanged from the prior year quarter, on our remaining market making operations. Our market making operations executed 4.7 million trades compared to 4.8 million trades executed in the prior year quarter. In addition, market making options and futures contract volumes both decreased 8% and stock share volumes decreased 30%, compared to the prior year quarter.

Included in trading gains are net dividends. Dividend income and expense arise from holding market making positions over dates on which dividends are paid to shareholders of record. When a stock pays a dividend, its market price is generally adjusted downward to reflect the value paid, which will not be received by those who purchase stock on or after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, to accurately reflect the results of our market making activities.

Other Income (Loss)

Other income (loss), for the current quarter, decreased \$40 million, compared to the prior year quarter, to a loss of \$19 million. Other income from core items decreased \$2 million, compared to the prior year quarter, to \$34 million, mainly driven by \$1 million decreases in each of market data fees income, risk exposure fee income, payments for order flow income, and other fees; partially offset by \$1 million increases in both account activity fee income and FDIC sweep fee income. Other income (loss) from non-core items decreased \$38 million, to a loss of \$53 million, mainly driven by a \$23 million increase in losses from our currency diversification strategy (a loss of \$47 million for the current quarter, compared to a loss of \$24 million in the prior year quarter), a \$13 million mark-to-market loss on our investment in Tiger Brokers, as discussed in the Financial Overview section, and a \$2 million net mark-to-market loss on our U.S. government securities portfolio in the current quarter, compared to a \$1 million net mark-to-market gain in the prior year quarter. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures about Market Risk."

Non-Interest Expenses

Non-interest expenses, for the current quarter, increased \$22 million, or 13%, compared to the prior year quarter, to \$185 million, mainly due to an \$11 million increase in execution, clearing and distribution fees; a \$5 million increase in general and administrative expenses; a \$4 million increase in employee compensation and benefits; and a \$3 million increase in occupancy expenses; partially offset by a \$1 million decrease in customer bad debt expense. As a percentage of total net revenues, non-interest expenses were 40% for the current quarter and 37% for the prior year quarter.

Execution, Clearing and Distribution Fees

Execution, clearing and distribution fees, for the current quarter, increased \$11 million, or 19%, compared to the prior year quarter, to \$68 million, driven by higher trade volumes, as customer options and futures contract volumes increased 16% and 21% respectively, while stock share volumes decreased 4%, compared to the prior year quarter, and the non-recurrence of a \$3 million clearing fee rebate recognized in the prior year quarter.

Employee Compensation and Benefits

Employee compensation and benefits expenses, for the current quarter, increased \$4 million, or 6%, compared to the prior year quarter, to \$67 million, associated with a 15% increase in the average number of employees to 1,550, for the current quarter, compared to 1,345 for the prior year quarter. Within the operating business segments, we continued to add staff in compliance, customer service and software development to support electronic brokerage; and, to this end, we continue to build up our operations in India. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. As a percentage of total net revenues, employee compensation and benefits expenses were 14% for both the current quarter and the prior year quarter.

Occupancy, Depreciation and Amortization

Occupancy, depreciation and amortization expenses, for the current quarter, increased \$3 million, or 25%, compared to the prior year quarter, to \$15 million, mainly due to higher office rent and related expenses as we expand our physical space for both offices and data centers. As a percentage of total net revenues, occupancy, depreciation and amortization expenses were 3% for both the current quarter and the prior year quarter.

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[Communications](#)

Communications expenses, for the current quarter, were \$7 million, unchanged from the prior year quarter. As a percentage of total net revenues, communications expenses were 2% for both the current quarter and the prior year quarter.

General and Administrative

General and administrative expenses, for the current quarter, increased \$5 million, or 20%, compared to the prior year quarter, to \$30 million, mainly due to higher professional services fees and expenses related to legal and regulatory matters. As a percentage of total net revenues, general and administrative expenses were 6% for both the current quarter and the prior year quarter.

Customer Bad Debt

Customer bad debt expense, for the current quarter, decreased \$1 million, compared to the prior year quarter, to negative \$2 million, due to the recovery of some previous losses.

Income Tax Expense

Income tax expense, for the current quarter, increased \$2 million, or 11%, to \$20 million, compared to the prior year quarter. The following table presents information about our income tax expense for the three months ended September 30, 2019 and 2018.

	Three Months Ended September 30,	
	2019	2018
	(in millions, except %)	
Consolidated		
Consolidated income before income taxes	\$ 281	\$ 276
IBG, Inc. stand-alone income before income taxes	-	3
Operating Companies income before income taxes	<u>\$ 281</u>	<u>\$ 273</u>
Operating Companies		
Income before income taxes	\$ 281	\$ 273
Income tax expense	4	6
Net income available to members	<u>\$ 277</u>	<u>\$ 267</u>
IBG, Inc.		
Average ownership percentage in IBG LLC	18.5%	18.0%
Net income available to IBG, Inc. from Operating Companies	\$ 52	\$ 48
IBG, Inc. stand-alone income before income taxes	-	3
Income before income taxes	52	51
Income tax expense	16	12
Net income available to common stockholders	<u>\$ 36</u>	<u>\$ 39</u>
Consolidated income tax expense		
Income tax expense attributable to Operating Companies	\$ 4	\$ 6
Income tax expense attributable to IBG, Inc.	16	12
Consolidated income tax expense	<u>\$ 20</u>	<u>\$ 18</u>

Operating Results

Income before income taxes, for the current quarter, increased \$5 million, or 2%, to \$281 million, compared to the prior year quarter. Pretax profit margin was 60% for the current quarter and 63% for the prior year quarter.

Comparing our operating results for the current quarter to the prior year quarter, excluding the effects of our currency diversification strategy, the net mark-to-market gain from our U.S. government securities portfolio, and the net mark-to-market loss from our investments, including Tiger Brokers, net revenues were \$525 million, up 14%; non-interest expenses were \$185 million, up 13%; income before income taxes was \$340 million, up 14%; and pre-tax profit margin was unchanged at 65%.

Nine Months Ended September 30, 2019 (“current nine-month period”) compared to the Nine Months Ended September 30, 2018 (“prior year nine-month period”)***Net Revenues***

Total net revenues, for the current nine-month period, increased \$26 million, compared to the prior year nine-month period, to \$1,437 million. The increase in net revenues was primarily due to higher net interest income; partially offset by lower commissions revenue, trading gains, and other income.

Commissions

Commissions, for the current nine-month period, decreased \$34 million, or 6%, compared to the prior year nine-month period, to \$538 million, driven by lower customer trading volumes in options, futures and stocks. Total customer options and futures contract and stock share volumes decreased 2%, 9% and 17%, respectively, compared to the prior year nine-month period. The decline in stock share volumes was due, in part, to our decision to limit the trading of micro-cap stocks (e.g., public companies with a market capitalization of less than \$300 million). Total DARTs for cleared and execution-only customers, for the current nine-month period, increased 2% to 845 thousand, compared to 832 thousand for the prior year nine-month period. DARTs for cleared customers, i.e., customers for whom we execute trades as well as clear and carry positions, for the current nine-month period, decreased 1% to 758 thousand, compared to 769 thousand for the prior year nine-month period. Average commission per DART for cleared customers, for the current nine-month period, decreased 6% to \$3.68, compared to \$3.90 for the prior year nine-month period, reflecting smaller average order sizes in futures.

Interest Income and Interest Expense

Net interest income (interest income less interest expense), for the current nine-month period, increased \$110 million, or 16%, compared to the prior year nine-month period, to \$796 million. The increase in net interest income was driven by higher average customer credit balances and higher benchmark interest rates.

Net interest income on customer balances, for the current nine-month period, increased \$73 million, compared to the prior year nine-month period, driven by a \$3.8 billion increase in average customer credit balances, a portion of which were invested in interest-bearing U.S. government securities, and 0.63% increase in the average Federal Funds effective rate to 2.33%, partially offset by a \$3.6 billion decrease in average customer margin loans. As a result of the increases in the Federal Funds effective rate, interest expense on customer credit balances denominated in U.S. dollars increased from the prior year nine-month period, in part, as we passed along more interest to our customers. In addition, we introduced a new benefit to customers, effective January 1, 2019, which pays a proportionate amount of interest on cash balances in accounts with less than \$100 thousand in equity. The increase in benchmark rates also drove higher interest income earned on the investment of customer segregated cash and on margin lending to customers.

We earn income on securities loaned and borrowed to support customer long and short stock holdings in margin accounts. In addition, our Stock Yield Enhancement Program provides an opportunity for customers with fully-paid stock to allow us to lend it out. We pay customers a rebate on the cash collateral generally equal to 50% of the income we earn from lending the shares. We place cash collateral securing the loans in the customer's account.

In the current nine-month period, average securities borrowed increased 18%, to \$3.9 billion and average securities loaned decreased 2%, to \$4.0 billion, compared to the prior year nine-month period. Net interest earned from securities lending is affected by the level of demand for securities positions held by our customers and in our market making business. During the current nine-month period, net interest earned from securities lending transactions increased \$11 million, or 7%, compared to the prior year nine-month period, driven by high demand for several hard-to-borrow securities that investors were selling short. It should be noted that securities lending transactions entered into to support customer activity may produce interest income (expense) that is offset by interest expense (income) related to customer balances.

The Company measures return on interest-earning assets using net interest margin (“NIM”). NIM is computed by dividing the annualized net interest income by the average interest-earning assets for the period. Interest-earning assets consist of cash and securities segregated for regulatory purposes (including U.S. government securities and securities purchased under agreements to resell), customer margin loans, securities borrowed, other interest-earning assets (solely firm assets) and customer cash balances swept into FDIC insured banks as part of our Insured Bank Deposit Sweep Program. Interest-bearing liabilities consist of customer credit balances and securities loaned.

Yields are generally a reflection of benchmark interest rates in each currency in which the Company and its customers hold cash balances. Because a substantial portion of customer cash and margin loans are denominated in currencies other than the U.S. dollar, changes in U.S. benchmark interest rates do not impact the total amount of segregated cash and securities, customer margin loans and customer credit balances. Furthermore, because interest is paid only on eligible cash credit balances (i.e., securities accounts with

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balances over a threshold amount, which varies by currency) changes in benchmark interest rates are not passed through to the total amount of customer credit balances. Finally, the Company's policies with respect to currencies with negative interest rates impact the yields on segregated cash and customer credit balances as effective interest rates in those currencies fluctuate. Generally, as benchmark interest rates rise, a larger portion of the interest earned on securities lending transactions is reported as net interest income on "Segregated cash and securities, net" instead of "Securities borrowed and loaned, net" because interest earned on cash collateral held in specially designated bank accounts for the benefit of customers, in accordance with U.S. customer protection rules, increases. The following table presents net interest income information corresponding to interest-earning assets and interest-bearing liabilities for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,	
	2019	2018
	(in millions)	
Average interest-earning assets		
Segregated cash and securities	\$ 27,384	\$ 20,437
Customer margin loans	26,014	29,599
Securities borrowed	3,900	3,295
Other interest-earning assets	5,202	4,208
FDIC sweeps ¹	1,999	1,122
	<u>\$ 64,499</u>	<u>\$ 58,661</u>
Average interest-bearing liabilities		
Customer credit balances	\$ 51,786	\$ 47,954
Securities loaned	3,993	4,068
	<u>\$ 55,779</u>	<u>\$ 52,022</u>
Net Interest income		
Segregated cash and securities, net	\$ 434	\$ 233
Customer margin loans ²	537	485
Securities borrowed and loaned, net ³	177	166
Customer credit balances, net ^{2,3}	(421)	(241)
Other net interest income ^{1,4}	94	63
Net interest income ⁴	<u>\$ 821</u>	<u>\$ 706</u>
Net interest margin ("NIM")	<u>1.70%</u>	<u>1.61%</u>
Annualized Yields		
Segregated cash and securities	2.12%	1.52%
Customer margin loans	2.76%	2.19%
Customer credit balances	1.09%	0.67%

- (1) Represents the average amount of customer cash swept into FDIC-insured banks as part of our Insured Bank Deposit Sweep Program. This item is not recorded in the Company's condensed consolidated statements of financial condition. Income derived from program deposits is reported in other net interest income in the table above.
- (2) Interest income and interest expense on customer margin loans and customer credit balances, respectively, are calculated on daily cash balances within each customer's account on a net basis, which may result in an offset of balances across multiple account segments (e.g., between securities and commodities segments).
- (3) During the quarter ended December 31, 2018, we reclassified components of net interest income related to interest paid on short sale proceeds and as such, prior period amounts have been adjusted to conform to the current period presentation. For the nine months ended September 30, 2018, (\$50) million has been reclassified from net interest income on "Securities borrowed and loaned, net" to "Customer credit balances, net".

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- (4) Includes income from financial instruments which has the same characteristics as interest, but is reported in other income in the Company's condensed consolidated statements of comprehensive income, of \$25 million and \$20 million for the nine months ended September 30, 2019 and 2018, respectively.

Trading Gains

Trading gains, for the current nine-month period, decreased \$12 million, or 38%, compared to the prior year nine-month period, to \$20 million, on our remaining market making operations. Our market making operations executed 12.9 million trades compared to 13.8 million trades executed in the prior year nine-month period. In addition, market making options and futures contract and stock share volumes decreased 12%, 20% and 9% respectively, compared to the prior year nine-month period.

Included in trading gains are net dividends. Dividend income and expense arise from holding market making positions over dates on which dividends are paid to shareholders of record. When a stock pays a dividend, its market price is generally adjusted downward to reflect the value paid, which will not be received by those who purchase stock on or after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, to accurately reflect the results of our market making activities.

Other Income

Other income, for the current nine-month period, decreased \$38 million, or 31%, compared to the prior year nine-month period, to \$83 million. Other income from core items decreased \$2 million, or 2%, compared to the prior year nine-month period, to \$102 million, mainly driven by a \$7 million decrease in risk exposure fee income, partially offset by \$4 million increases in both FDIC sweep fee income and account activity fee income. Other income (loss) from non-core items decreased \$36 million, to a loss of \$19 million, mainly driven by a \$65 million increase in losses from our currency diversification strategy (a loss of \$72 million for the current nine-month period, compared to a loss of \$7 million in the prior year nine-month period), partially offset by a net \$16 million mark-to-market gain on our investment in Tiger Brokers, as discussed in the Financial Overview section, and an \$8 million net mark-to-market gain on our U.S. government securities portfolio in the current nine-month period compared to a net mark-to-market gain of \$1 million in the prior year nine-month period. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures about Market Risk."

Non-Interest Expenses

Non-interest expenses, for the current nine-month period, increased \$68 million, or 13%, compared to the prior year nine-month period, to \$592 million, mainly due to a \$43 million increase in customer bad debt expense; a \$12 million increase in employee compensation and benefits; a \$10 million increase in general and administrative expenses; and an \$8 million increase in occupancy expenses; partially offset by a \$4 million decrease in execution, clearing and distribution fees. As a percentage of total net revenues, non-interest expenses were 41% for the current nine-month period and 37% for the prior year nine-month period.

Execution, Clearing and Distribution Fees

Execution, clearing and distribution fees, for the current nine-month period, decreased \$4 million, or 2%, compared to the prior year nine-month period, to \$192 million, driven by lower trade volumes, as customer options and futures contract and stock share volumes decreased 2%, 9% and 17%, respectively, compared to the prior year nine-month period, partially offset by the non-recurrence of a \$3 million clearing fee rebate recognized in the prior year nine-month period.

Employee Compensation and Benefits

Employee compensation and benefits expenses, for the current nine-month period, increased \$12 million, or 6%, compared to the prior year nine-month period, to \$213 million, associated with a 15% increase in the average number of employees to 1,493, for the current nine-month period, compared to 1,293 for the prior year nine-month period. Within the operating business segments, we continued to add staff in compliance, customer service and software development to support electronic brokerage; and, to this end, we continue to build up our operations in India. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. As a percentage of total net revenues, employee compensation and benefits expenses were 15% for the current nine-month period and 14% for the prior year nine-month period.

Occupancy, Depreciation and Amortization

Occupancy, depreciation and amortization expenses, for the current nine-month period, increased \$8 million, or 23%, compared to the prior year nine-month period, to \$43 million, mainly due to higher office rent and related expenses as we expand our physical space for both offices and data centers. As a percentage of total net revenues, occupancy, depreciation and amortization expenses were 3% for the current nine-month period and 2% for the prior year nine-month period.

Communications

Communications expenses, for the current nine-month period, decreased \$1 million, or 5%, compared to the prior year nine-month period, to \$19 million. As a percentage of total net revenues, communications expenses were 1% for both the current nine-month period and the prior year nine-month period.

General and Administrative

General and administrative expenses, for the current nine-month period, increased \$10 million, or 14%, compared to the prior year nine-month period, to \$80 million, mainly due to higher professional services fees and expenses related to legal and regulatory matters. As a percentage of total net revenues, general and administrative expenses were 6% for the current nine-month period and 5% for the prior year nine-month period.

Customer Bad Debt

Customer bad debt expense, for the current nine-month period, increased \$43 million, compared to the prior year nine-month period, to \$45 million, due to net margin lending losses, as described in the Financial Overview section.

Income Tax Expense

Income tax expense, for the current nine-month period, decreased \$2 million, or 4%, to \$50 million, compared to the prior year nine-month period, primarily due to lower income taxes at some of our foreign subsidiaries.

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The following table presents information about our income tax expense for the nine months ended September 30, 2019 and 2018.

	Nine Months Ended September 30,	
	2019	2018
	(in millions, except %)	
Consolidated		
Consolidated income before income taxes	\$ 845	\$ 887
IBG, Inc. stand-alone income before income taxes	(1)	3
Operating Companies income before income taxes	<u>\$ 846</u>	<u>\$ 884</u>
Operating Companies		
Income before income taxes	\$ 846	\$ 884
Income tax expense	16	23
Net income available to members	<u>\$ 830</u>	<u>\$ 861</u>
IBG, Inc.		
Average ownership percentage in IBG LLC	18.3%	17.7%
Net income available to IBG, Inc. from Operating Companies	\$ 152	\$ 152
IBG, Inc. stand-alone income before income taxes	(1)	3
Income before income taxes	151	155
Income tax expense	34	29
Net income available to common stockholders	<u>\$ 117</u>	<u>\$ 126</u>
Consolidated income tax expense		
Income tax expense attributable to Operating Companies	\$ 16	\$ 23
Income tax expense attributable to IBG, Inc.	34	29
Consolidated income tax expense	<u>\$ 50</u>	<u>\$ 52</u>

Operating Results

Income before income taxes, for the current nine-month period, decreased \$42 million, or 5%, compared to the prior year nine-month period, to \$845 million. Pretax profit margin was 59% for the current nine-month period and 63% for the prior year nine-month period.

Comparing our operating results for the current nine-month period to the prior year nine-month period, excluding the effects of our currency diversification strategy, the net mark-to-market gains and losses from our U.S. government securities portfolio, the net mark-to-market gain from our investments, including Tiger Brokers, and the customer bad debt expense described above, net revenues were \$1,481 million, up 5%; non-interest expenses were \$550 million, up 5%; income before income taxes was \$931 million, up 4%; and pre-tax profit margin was unchanged at 63%.

The following table sets forth the net revenues, non-interest expenses and income before income taxes for our business segments:

		<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
		(in millions)			
Electronic Brokerage	Net revenues	\$ 506	\$ 444	\$ 1,435	\$ 1,352
	Non-interest expenses	175	152	552	486
	Income before income taxes	<u>\$ 331</u>	<u>\$ 292</u>	<u>\$ 883</u>	<u>\$ 866</u>
Pre-tax profit margin		65%	66%	62%	64%
Market Making	Net revenues	\$ 17	\$ 16	\$ 52	\$ 59
	Non-interest expenses	9	9	27	34
	Income before income taxes	<u>\$ 8</u>	<u>\$ 7</u>	<u>\$ 25</u>	<u>\$ 25</u>
Pre-tax profit margin		47%	44%	48%	42%
Corporate⁽¹⁾	Net revenues	\$ (57)	\$ (21)	\$ (50)	\$ -
	Non-interest expenses	1	2	13	4
	Income (loss) before income taxes	<u>\$ (58)</u>	<u>\$ (23)</u>	<u>\$ (63)</u>	<u>\$ (4)</u>
Total	Net revenues	\$ 466	\$ 439	\$ 1,437	\$ 1,411
	Non-interest expenses	185	163	592	524
	Income before income taxes	<u>\$ 281</u>	<u>\$ 276</u>	<u>\$ 845</u>	<u>\$ 887</u>
Pre-tax profit margin		60%	63%	59%	63%

(1) The corporate segment includes corporate related activities, inter-segment eliminations, and gains and losses on positions held as part of our overall currency diversification strategy.

The following sections discuss the results of our operations by business segment, excluding a discussion of corporate segment income and expense. In the following tables, revenues and expenses directly associated with each business segment are included in determining income before income taxes. Due to the integrated nature of the business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between business segments generally result from one subsidiary facilitating the business of another subsidiary through the use of its existing trading memberships and clearing arrangements. In such cases, certain revenue and expense items are eliminated to accurately reflect the external business conducted in each business segment. Rates on transactions between business segments are designed to approximate full costs. In addition to execution, clearing and distribution fees each business segment's operating expenses include: (i) employee compensation and benefits expenses that are incurred directly in support of each business segment, (ii) general and administrative expenses, which include directly incurred expenses for property leases, professional fees, travel and entertainment, communications and information services, equipment, and (iii) indirect support costs (including compensation and other related operating expenses) for administrative services provided by corporate segment subsidiaries. Such administrative services include, but are not limited to, computer software development and support, accounting, tax, legal and facilities management.

The following table sets forth the results of our electronic brokerage operations for the indicated periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Revenues				
Commissions	\$ 187	\$ 167	\$ 538	\$ 572
Interest income	472	363	1,318	1,002
Other income	36	42	125	118
Total revenues	695	572	1,981	1,692
Interest expense	189	128	546	340
Total net revenues	506	444	1,435	1,352
Non-interest expenses				
Execution, clearing and distribution fees	64	54	182	185
Employee compensation and benefits	34	31	106	97
Occupancy, depreciation and amortization	5	4	15	13
Communications	4	4	12	12
General and administrative	70	60	192	177
Customer bad debt	(2)	(1)	45	2
Total non-interest expenses	175	152	552	486
Income before income taxes	\$ 331	\$ 292	\$ 883	\$ 866

Three Months Ended September 30, 2019 (“current quarter”) compared to the Three Months Ended September 30, 2018 (“prior year quarter”)

Electronic brokerage total net revenues, for the current quarter, increased \$62 million, or 14%, compared to the prior year quarter, to \$506 million, due to higher net interest income and commissions revenue, partially offset by lower other income.

Commissions, for the current quarter, increased \$20 million, or 12%, compared to the prior year quarter, to \$187 million, driven by higher customer trading volumes in options and futures, and higher average commission per share despite lower volumes in stocks. Total customer options and futures contract volumes increased 16% and 21%, respectively, while stock share volumes decreased 4%, compared to the prior year quarter. Total DARTs for cleared and execution-only customers, for the current quarter, increased 13% to 859 thousand, compared to 763 thousand for the prior year quarter. DARTs for cleared customers, i.e., customers for whom we execute trades as well as clear and carry positions, for the current quarter, increased 12% to 777 thousand, compared to 696 thousand for the prior year quarter. Average commission per DART for cleared customers, for the current quarter, decreased 2% to \$3.69, compared to \$3.78 for the prior year quarter, reflecting smaller average order sizes across most product types.

Net interest income, for the current quarter, increased \$48 million, or 20%, compared to the prior year quarter, to \$283 million, driven by a \$5.2 billion increase in average customer credit balances, a portion of which were invested in interest-bearing U.S. government securities, and a 0.27% increase in the average Federal Funds effective rate to 2.19%, partially offset by a \$3.2 billion decrease in average customer margin loans. As a result of the increases in the Federal Funds effective rate, interest expense on customer credit balances denominated in U.S. dollars increased from the prior year quarter, in part, as we passed along more interest to our customers. In addition, we introduced a new benefit to customers, effective January 1, 2019, which pays a proportionate amount of interest on cash balances in accounts with less than \$100 thousand in equity. The increase in benchmark rates also drove higher interest income earned on the investment of customer segregated cash.

Other income, for the current quarter, decreased \$6 million, or 14%, compared to the prior year quarter, to \$36 million, mainly driven by a \$2 million net mark-to-market loss on our U.S. government securities portfolio in the current quarter compared to a \$1 million net mark-to-market gain in the prior year quarter and \$1 million decreases in each of market data fees income, risk exposure fee income, payments for order flow income, and other fees; partially offset by \$1 million increases in both account activity fee income and FDIC sweep fee income, compared to the prior year quarter.

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Non-interest expenses, for the current quarter, increased \$23 million, or 15%, compared to the prior year quarter, to \$175 million, driven by a \$10 million increase in general and administrative expense, mainly due to higher professional services fees and expenses related to legal and regulatory matters; a \$10 million increase in execution, clearing and distribution fees, driven by higher trade volumes, as customer options and futures contract volumes increased 16% and 21%, respectively; a \$3 million increase in employee compensation and benefits expenses, commensurate with a 12% increase in the average number of employees in the electronic brokerage segment; and a \$1 million increase in occupancy expenses; partially offset by a \$1 million decrease in customer bad debt expense. As a percentage of total net revenues, non-interest expenses were 35% for the current quarter and 34% for the prior year quarter.

Income before income taxes, for the current quarter, increased \$39 million, or 13%, compared to the prior year quarter, to \$331 million. As a percentage of total net revenues for the electronic brokerage segment, income before income taxes was 65% for the current quarter and 66% for the prior year quarter.

Comparing electronic brokerage operating results for the current quarter to the prior year quarter, excluding the net mark-to-market gains from our U.S. government securities portfolio, net revenues were \$508 million, up 15%; income before income taxes was \$333 million, up 14%; and pre-tax profit margin was 66% for both the current quarter and the prior year quarter.

Nine Months Ended September 30, 2019 (“current nine-month period”) compared to the Nine Months Ended September 30, 2018 (“prior year nine-month period”)

Electronic brokerage total net revenues, for the current nine-month period, increased \$83 million, or 6%, compared to the prior year nine-month period, to \$1,435 million, due to higher net interest income and other income, partially offset by lower commissions revenue.

Commissions, for the current nine-month period, decreased \$34 million, or 6%, compared to the prior year nine-month period, to \$538 million, driven by lower customer trading volumes in options, futures and stocks. Total customer options and futures contract and stock share volumes decreased 2%, 9% and 17%, respectively, compared to the prior year nine-month period. The decline in stock share volumes was due, in part, to our decision to limit the trading of micro-cap stocks (e.g., public companies with a market capitalization of less than \$300 million). Total DARTs for cleared and execution-only customers, for the current nine-month period, increased 2% to 845 thousand, compared to 832 thousand for the prior year nine-month period. DARTs for cleared customers, i.e., customers for whom we execute trades as well as clear and carry positions, for the current nine-month period, decreased 1% to 758 thousand, compared to 769 thousand for the prior year nine-month period. Average commission per DART for cleared customers, for the current nine-month period, decreased 6% to \$3.68, compared to \$3.90 for the prior year nine-month period, reflecting smaller average orders sizes in futures.

Net interest income, for the current nine-month period, increased \$110 million, or 17%, compared to the prior year nine-month period, to \$772 million, driven by a \$3.8 billion increase in average customer credit balances, a portion of which were invested in interest-bearing U.S. government securities, and an 0.63% increase in the average Federal Funds effective rate to 2.33%, partially offset by a \$3.6 billion decrease in average customer margin loans. As a result of the increases in the Federal Funds effective rate, interest expense on customer credit balances denominated in U.S. dollars increased from the prior year nine-month period, in part, as we passed along more interest to our customers. In addition, we introduced a new benefit to customers, effective January 1, 2019, which pays a proportionate amount of interest on cash balances in accounts with less than \$100 thousand in equity. The increase in benchmark rates also drove higher interest income earned on the investment of customer segregated cash and on margin lending to customers.

Other income, for the current nine-month period, increased \$7 million, or 6%, compared to the prior year nine-month period, to \$125 million, mainly driven by a \$8 million net mark-to-market gain on our U.S. government securities portfolio in the current nine-month period compared to a net mark-to-market gain of \$1 million in the prior year nine-month period; a \$4 million increase in FDIC sweep fee income; a \$4 million increase in account activity fee income; and a \$2 million increase in net gains from other investments; partially offset by a \$7 million decrease in risk exposure fee income and a \$3 million decrease in other customer related fees.

Non-interest expenses, for the current nine-month period, increased \$66 million, or 14%, compared to the prior year nine-month period, to \$552 million, driven by a net \$43 million increase in customer bad debt expense, as described in the Financial Overview section; a \$15 million increase in general and administrative expense, mainly due to higher professional services fees and expenses related to legal and regulatory matters; a \$9 million increase in employee compensation and benefits expenses related to a 12% increase in the average number of employees in the electronic brokerage segment; and a \$2 million increase in occupancy expenses, compared to the prior year nine-month period; partially offset by a \$3 million decrease in execution, clearing and distribution fees driven by lower trade volumes, as customer options and futures contract and stock share volumes decreased 2%, 9% and 17%, respectively.

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Income before income taxes, for the current nine-month period, increased \$17 million, or 2%, compared to the prior year nine-month period, to \$883 million. As a percentage of total net revenues for the electronic brokerage segment, income before income taxes was 62% for the current nine-month period and 64% for the prior year nine-month period.

Comparing electronic brokerage operating results for the current nine-month period to the prior year nine-month period, excluding the net mark-to-market gains from our U.S. government securities portfolio and the customer bad debt expense described above, net revenues were \$1,427 million, up 6%; income before income taxes was \$917 million, up 6%; and pre-tax profit margin was 64% for both the current nine-month period and the prior year nine-month period.

Market Making

The following table sets forth the results of our market making operations for the indicated periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Revenues				
Trading gains	\$ 7	\$ 7	\$ 20	\$ 32
Interest income	13	11	36	36
Other income	1	2	7	7
Total revenues	21	20	63	75
Interest expense	4	4	11	16
Total net revenues	17	16	52	59
Non-interest expenses				
Execution, clearing and distribution fees	4	3	11	12
Employee compensation and benefits	2	2	8	9
Occupancy, depreciation and amortization	-	-	-	-
Communications	-	1	-	1
General and administrative	3	3	8	12
Total non-interest expenses	9	9	27	34
Income before income taxes	\$ 8	\$ 7	\$ 25	\$ 25

Three Months Ended September 30, 2019 (“current quarter”) compared to the Three Months Ended September 30, 2018 (“prior year quarter”)

Market making total net revenues, for the current quarter, increased \$1 million, or 6%, compared to the prior year quarter, to \$17 million, due to higher net interest income, partially offset by lower other income.

Trading gains, for the current quarter, were \$7 million, unchanged from the prior year quarter, on our remaining market making operations. Our market making operations executed 4.7 million trades compared to 4.8 million trades executed in the prior year quarter. In addition, market making options and futures contract volumes both decreased 8%, and stock share volumes decreased 30%, compared to the prior year quarter.

Net interest income, for the current quarter, increased \$2 million, or 29%, compared to the prior year quarter, to \$9 million.

Other income, for the current quarter, decreased \$1 million, or 50%, compared to the prior year quarter, to \$1 million.

Non-interest expenses, for the current quarter, were \$9 million, unchanged from the prior year quarter. As a percentage of total net revenues, non-interest expenses were 53% for the current quarter and 56% for the prior year quarter.

Income before income taxes, for the current quarter, increased \$1 million, compared to the prior year quarter, to \$8 million.

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Nine Months Ended September 30, 2019 (“current nine-month period”) compared to the Nine Months Ended September 30, 2018 (“prior year nine-month period”)

Market making total net revenues, for the current nine-month period, decreased \$7 million, or 12%, compared to the prior year nine-month period, to \$52 million, due to lower trading gains.

Trading gains, for the current nine-month period, decreased \$12 million, or 38%, compared to the prior year nine-month period, to \$20 million, on our remaining market making operations. Our market making operations executed 12.9 million trades compared to 13.8 million trades executed in the prior year nine-month period. In addition, market making options and futures contract and stock share volumes decreased 12%, 20% and 9%, respectively, compared to the prior year nine-month period.

Net interest income, for the current nine-month period, increased \$5 million, or 25%, compared to the prior year nine-month period, to \$25 million.

Other income, for the current nine-month period, was \$7 million, unchanged from the prior year nine-month period.

Non-interest expenses, for the current nine-month period, decreased \$7 million, or 21%, compared to the prior year nine-month period, to \$27 million. Within non-interest expenses, general and administrative expenses decreased \$4 million, or 33%; execution, clearing and distribution fees decreased \$1 million, or 8%, on lower trading volumes in options, futures and stocks; employee compensation and benefits expense decreased \$1 million, or 11%; and communications expense decreased \$1 million, compared to the prior year nine-month period, as we continue to wind down our options market making operations. As a percentage of total net revenues, non-interest expenses were 52% for the current nine-month period and 58% for the prior year nine-month period.

Income before income taxes, for the current nine-month period, was \$25 million, unchanged from the prior year nine-month period.

Liquidity and Capital Resources

We maintain a highly liquid balance sheet. The majority of our assets consists of investments of customer funds, collateralized receivables arising from customer-related and proprietary securities transactions, and exchange-listed marketable securities, which are marked-to-market daily. Collateralized receivables consist primarily of customer margin loans, securities borrowed and, to a lesser extent, securities purchased under agreements to resell, and receivables from clearing houses for settlement of securities transactions. As of September 30, 2019, total assets were \$67.8 billion of which approximately \$67.2 billion, or 99.1%, were considered liquid.

Daily monitoring of liquidity needs and available collateral levels is undertaken to help ensure that an appropriate liquidity cushion, in the form of cash and unpledged collateral, is maintained at all times. We actively manage our excess liquidity and we maintain significant borrowing facilities through the securities lending markets and with banks. As a general practice, we maintain sufficient levels of cash on hand to provide us with a buffer should we need immediately available funds for any reason. Based on our current level of operations, we believe our cash flows from operations, available cash and available borrowings will be adequate to meet our future liquidity needs for more than the next twelve months.

Liability balances, as of September 30, 2019, in connection with securities loaned were lower than the average monthly balance during the current quarter and our payables to customers and short-term borrowings were higher than their respective average monthly balances during the current quarter.

Cash and cash equivalents held by our non-U.S. operating companies as of September 30, 2019 were \$819 million (\$769 million as of December 31, 2018). These funds are primarily intended to finance each individual operating company’s local operations, and thus would not be available to fund U.S. domestic operations unless repatriated through payment of dividends to IBG LLC. As of September 30, 2019, we had no intention to repatriate further amounts from non-U.S. operating companies. With the enactment of the Tax Cuts and Jobs Act in 2018, we recognized a liability for the one-time transition tax on deemed repatriation of earnings of some of our foreign subsidiaries. As a result, in the event dividends were to be paid to the Company in the future by a non-U.S. operating company, the Company would not be required to accrue and pay income taxes on such dividends, except for foreign taxes in the form of dividend withholding tax, if any, imposed on the recipient of the distribution or dividend distribution tax imposed on the payor of the distribution.

Historically, our consolidated equity has consisted primarily of accumulated retained earnings, which to date have been sufficient to fund our operations and growth. Our consolidated equity increased 11% to \$7.7 billion as of September 30, 2019 from \$6.9 billion as of September 30, 2018. This increase is attributable to total comprehensive income, partially offset by distributions and dividends paid during the last four quarters.

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Cash Flows

The following table sets forth our cash flows from operating activities, investing activities and financing activities for the periods indicated:

	Nine Months Ended September 30,	
	2019	2018
	(in millions)	
Net cash provided by operating activities	\$ 2,178	\$ 2,764
Net cash used in investing activities	(77)	(43)
Net cash used in financing activities	(358)	(341)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(14)	(74)
Increase in cash, cash equivalents, and restricted cash	<u>\$ 1,729</u>	<u>\$ 2,306</u>

Our cash flows from operating activities are largely a reflection of the changes in customer credit and margin loan balances in our electronic brokerage business, and to a lesser extent of the size and composition of trading positions held by our market making subsidiaries. Our cash flows from investing activities are primarily related to other investments, capitalized internal software development, purchases and sales of memberships at exchanges where we trade, and strategic investments where such investments may enable us to offer better execution alternatives to our current and prospective customers, or where we can influence exchanges to provide competing products at better prices using sophisticated technology. Our cash flows from financing activities are comprised of short-term borrowings and capital transactions. Short-term borrowings from banks are part of our daily cash management in support of operating activities. Capital transactions consist primarily of quarterly dividends paid to common stockholders and related distributions paid to Holdings.

Nine Months Ended September 30, 2019: Our cash, cash equivalents and restricted cash (i.e., cash and cash equivalents that are subject to withdrawal or usage restrictions) increased by \$1,729 million to \$11.8 billion for the nine months ended September 30, 2019. We raised \$2,178 million in net cash from operating activities. We used net cash of \$435 million in our investing and financing activities, primarily for distributions to noncontrolling interests, dividends paid to our common stockholders, and payments made under the Tax Receivable Agreement. Investing activities mainly consisted of purchases of property, equipment and intangible assets and other investments.

Nine Months Ended September 30, 2018: Our cash, cash equivalents, and restricted cash increased by \$2,306 million to \$10.6 billion for the nine months ended September 30, 2018. We raised \$2,764 million in net cash from operating activities. We used net cash of \$384 million in our investing and financing activities, primarily for distributions to noncontrolling interests, dividends paid to our common stockholders, and payments made under the Tax Receivable Agreement, partially offset by higher short-term borrowings. Investing activities mainly consisted of a strategic investment and purchases of property, equipment and intangible assets

Regulatory Capital Requirements

Our principal operating companies are subject to separate regulation and capital requirements in the U.S. and other jurisdictions. IB LLC and TH LLC are registered U.S. broker-dealers and their primary regulators include the SEC, the Chicago Board Options Exchange, and FINRA. Additionally, IB LLC is regulated by the CFTC and the Chicago Mercantile Exchange. IB LLC is also a registered U.S. forex dealer member regulated by the NFA. IBKRFS is registered to do business in Switzerland as a securities dealer and is regulated by the Swiss Financial Market Supervisory Authority. Our various other operating companies are similarly regulated. See the notes to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our regulated operating companies. As of September 30, 2019, aggregate excess regulatory capital for all of the operating companies was \$6.2 billion, and all of the operating companies were in compliance with their respective regulatory capital requirements.

	Net Capital/ Eligible Equity	Requirement	Excess
	(in millions)		
IB LLC	\$ 5,386	\$ 422	\$ 4,964
TH LLC	44	-	44
IBKRFS	572	94	478
Other regulated Operating Companies	828	137	691
	<u>\$ 6,830</u>	<u>\$ 653</u>	<u>\$ 6,177</u>

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Capital Expenditures

Our capital expenditures are comprised of compensation costs of our software engineering staff for development of software for internal use and expenditures for computer, networking and communications hardware, and leasehold improvements. These expenditure items are reported as property, equipment, and intangible assets. Capital expenditures for property, equipment, and intangible assets were approximately \$62 million and \$23 million for the nine months ended September 30, 2019 and 2018, respectively. The increase during the nine-month period ended September 30, 2019 is mainly driven by the renovation of our U.S. headquarters and the relocation of our primary data center. In the future, we plan to meet capital expenditure needs with cash from operations and cash on hand, as we continue our focus on technology infrastructure initiatives to further enhance our competitive position. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either upward or downward) to match our actual performance. If we pursue any additional strategic acquisitions, we may incur additional capital expenditures.

Seasonality

Our businesses are subject to seasonal fluctuations, reflecting varying numbers of market participants at times during the year, varying numbers of trading days from quarter-to-quarter, and declines in trading activity due to holidays. Typical seasonal trends may be superseded by market or world events, which can have a significant impact on prices and trading volume.

Inflation

Although we cannot accurately anticipate the effects of inflation on our operations, we believe that, for the three most recent years, inflation has not had a material impact on our results of operations and will not likely have a material impact in the foreseeable future.

Investments in U.S. Government Securities

We invest in U.S. government securities for the purpose of satisfying U.S. regulatory requirements. As a broker-dealer, unlike banks, we are required to mark these investments to market even though we intend to hold them to maturity. Sudden changes in interest rates will cause mark-to-market gains or losses on these securities, which are reversed if we hold them to maturity, as currently intended. The impact of changes in interest rates is further described in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

Strategic Investments and Acquisitions

We regularly evaluate potential strategic investments and acquisitions. We hold strategic investments in electronic trading exchanges including BOX Options Exchange, LLC and OneChicago LLC. In addition, in June 2018, we consummated a strategic investment in Tiger Brokers, an online stock brokerage established for Chinese retail and institutional customers. On March 20, 2019, Tiger Brokers priced its initial public offering (“IPO”) of American Depositary Shares listed on NASDAQ Global Select market and, concurrently with the IPO, we purchased unregistered ordinary shares in Tiger Brokers through a private placement offering which transactions resulted in a beneficial ownership interest of 7.6%.

We intend to continue making acquisitions on an opportunistic basis, generally only when the acquisition candidate will, in our opinion, enable us to acquire either technology or customers faster than we could develop them on our own.

As of September 30, 2019, no other definitive agreements with respect to any material acquisition existed.

Certain Information Concerning Off-Balance-Sheet Arrangements

We may be exposed to a risk of loss not reflected in our condensed consolidated financial statements for futures products, which represent our obligations to settle at contracted prices, and which may require us to repurchase or sell in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk, as our cost to liquidate such futures contracts may exceed the amounts reported in our condensed consolidated statements of financial condition.

Critical Accounting Policies

Principles of Consolidation, including Noncontrolling Interests

The condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries. As sole managing member of IBG LLC, we exert control over the Group’s operations. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) ASC Topic 810, “Consolidation,” we consolidate the

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Group's consolidated financial statements and record as noncontrolling interest the interests in the Group that we do not own.

We are the sole managing member of IBG LLC and, as such, operate and control all of the business and affairs of IBG LLC and its subsidiaries and as such, consolidate IBG LLC's financial results into our financial statements. We hold approximately 18.5% ownership interest in IBG LLC. Holdings holds approximately 81.5% ownership interest in IBG LLC. Our current share of IBG LLC's net income is approximately 18.5%.

Our policy is to consolidate all other entities in which we own more than 50% unless we do not have control. All inter-company balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the condensed consolidated financial statements and accompanying notes. These estimates and assumptions are based on judgment and the best available information at the time. Therefore, actual results could differ materially from those estimates. Such estimates include the allowance for doubtful accounts, valuation of certain investments, compensation accruals, current and deferred income taxes, costs associated with exit or disposal activities, and contingency reserves.

Valuation of Financial Assets and Financial Liabilities

Due to the nature of our operations, substantially all of our financial assets, comprised of financial instruments owned, securities purchased under agreements to resell, securities borrowed, receivable from customers, and receivables from brokers, dealers and clearing organizations are carried at fair value based on published market prices and are marked to market daily, or are assets which are short-term in nature and are reported at amounts that approximate fair value. Similarly, all of our financial liabilities that arise from financial instruments sold but not yet purchased, securities sold under agreements to repurchase, securities loaned, payables to customers, and payables to brokers, dealers and clearing organizations are carried at fair value based on published market prices and are marked to market daily, or are liabilities which are short-term in nature and are reported at amounts that approximate fair value. Our long and short positions are mainly valued at the last consolidated trade price at the close of regular trading hours, in their respective markets.

Earnings per Share

Earnings per share ("EPS") are computed in accordance with FASB ASC Topic 260, "Earnings per Share." Basic EPS is computed by dividing the net income available for common stockholders by the weighted average number of shares outstanding for that period. Diluted EPS is calculated by dividing the net income available for common stockholders by the diluted weighted average shares outstanding for that period. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of shares of common stock estimated to be distributed in the future under our stock-based compensation plans, with no adjustments to net income available for common stockholders for potentially dilutive common shares.

Stock-Based Compensation

We follow FASB ASC Topic 718, "Compensation - Stock Compensation" ("ASC Topic 718"), to account for our stock-based compensation plans. ASC Topic 718 requires all share-based payments to employees to be recognized in the condensed consolidated financial statements using a fair value-based method. Grants, which are denominated in U.S. dollars, are communicated to employees in the year of grant, thereby establishing the fair value of each grant. The fair value of awards granted to employees are generally expensed as follows: 50% in the year of grant in recognition of the plans' post-employment provisions (as described below) and the remaining 50% over the related vesting period utilizing the "graded vesting" method permitted under ASC Topic 718. In the case of "retirement eligible" employees (those employees older than 59), 100% of awards are expensed when granted.

Awards granted under the stock-based compensation plans are subject to the plans' post-employment provisions in the event an employee ceases employment with us. The plans provide that employees who discontinue employment with us without cause and continue to meet the terms of the plans' post-employment provisions will be eligible to earn 50% of previously granted, but not yet earned awards, unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of previously granted, but not yet earned awards.

Contingencies

Our policy is to estimate and accrue for potential losses that may arise out of litigation and regulatory proceedings, to the extent that such losses are probable and can be estimated, in accordance with FASB ASC Topic 450, "Contingencies." Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total liability accrued with

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respect to litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses based on, among other factors, the progress of each case, our experience with and industry experience with similar cases and the opinions and views of internal and external legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, or where cases or proceedings are in the early stages, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred.

As of September 30, 2019, we, along with certain of our subsidiaries, have been named parties to legal actions, which we and/or such subsidiaries intend to defend vigorously. Although the results of legal actions cannot be predicted with certainty, the opinion of management is that the resolution of these actions is not expected to have a material adverse effect, if any, on our business or financial condition, but may have a material impact on the results of operations for a given period. As of September 30, 2019 and December 31, 2018, reserves provided for potential losses related to litigation matters were not material.

Income Taxes

We account for income taxes in accordance with FASB ASC Topic 740, "Income Taxes" ("ASC Topic 740"). Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits are based on enacted tax laws and reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Determining income tax expense requires significant judgment and estimates.

Deferred income tax assets and liabilities arise from temporary differences between the tax and financial statement recognition of the underlying assets and liabilities. In evaluating our ability to recover our deferred tax assets within the jurisdictions from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, historical results are adjusted for changes in accounting policies and incorporate assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, three years of cumulative operating income (loss) are considered. Deferred income taxes have not been provided for U.S. tax liabilities or for additional foreign taxes on the unremitted earnings of foreign subsidiaries that have been indefinitely reinvested.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. We record tax liabilities in accordance with ASC Topic 740 and adjust these liabilities when management's judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in payments that are different from the current estimates of these tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information becomes available.

We recognize that a tax benefit from an uncertain tax position may be recognized only when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. A tax position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement.

We recognize interest related to income tax matters as interest income or interest expense and penalties related to income tax matters as income tax expense.

Recently Issued Accounting Pronouncements

Following is a summary of recently issued FASB Accounting Standards Updates (“ASUs”) that may affect our condensed consolidated financial statements:

	Affects	Status
ASU 2016-13	<i>Financial Instruments - Credit Losses (Topic 326)</i> : Measurement of Credit Losses on Financial Instruments.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2017-04	<i>Intangibles - Goodwill and Other (Topic 350)</i> : Simplifying the Test for Goodwill Impairment.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2018-13	<i>Fair Value Measurement (Topic 820)</i> : Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2018-15	<i>Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)</i> : Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2019-04	Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2019-05	<i>Financial Instruments - Credit Losses (Topic 326)</i> : Targeted Transition Relief.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2019-07	<i>Codification Updates to SEC Sections</i> - Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases N. 33-10532, Disclosure Update and Simplification, Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization and Miscellaneous Updates.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.

Adoption of the ASUs that became effective during 2018 and 2019 prior to the issuance of the Company’s condensed consolidated financial statements, had no material effect on these financial statements, except as described in the notes to these financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks. Our exposures to market risks arise from assumptions built into our pricing models, equity price risk, foreign currency exchange rate fluctuations related to our international operations, changes in interest rates which impact our variable-rate debt obligations, if any, and risks relating to the extension of margin credit to our customers.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, we incur trading-related market risk as a result of activities in the market making segment, where the substantial majority of our Value-at-Risk (“VaR”) for market risk exposures is generated. In addition, we incur non-trading-related market risk primarily from investment activities and from foreign currency exposure held in the equity of our foreign affiliates, i.e., our non-U.S. brokerage affiliates and information technology affiliates, and held to meet target balances in our currency diversification strategy.

We use various risk management tools in managing our market risk, which are embedded in our real-time market making systems. We employ certain hedging and risk management techniques to protect us from a severe market dislocation. Our risk management policies are developed and implemented by our Chairman and our steering committee, which is comprised of senior executives of our various companies. Our strategy is to calculate quotes a few seconds ahead of the market and execute small trades at a tiny but favorable differential as a result. This is made possible by our proprietary pricing model, which evaluates and monitors the risks inherent in our portfolio, assimilates external market data and reevaluates the outstanding quotes in our portfolio many times per second. Our model automatically rebalances our positions throughout each trading day to manage risk exposures on our options and futures positions and the underlying securities, and will price the increased risk that a position would add to the overall portfolio into the bid and offer prices we post. Under risk management policies implemented and monitored primarily through our computer systems, reports to management, including risk profiles, profit and loss analysis and trading performance, are prepared on a real-time basis as well as daily and periodical bases. Although our market making is completely automated, the trading process and our risk are monitored by a team of individuals who, in real time, observe various risk parameters of our consolidated positions. Our assets and liabilities are

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marked-to-market daily for financial reporting purposes and re-valued continuously throughout the trading day for risk management and asset/liability management purposes.

We use a covariant VaR methodology to measure, monitor and review the market risk of our market making portfolios, with the exception of fixed income products, and our currency exposures. The risk of fixed income products, which comprise primarily U.S. government securities, is measured using a stress test.

Pricing Model Exposure

As described above, our proprietary pricing model, which continuously evaluates and monitors the risks inherent in our portfolio, assimilates external market data and reevaluates the outstanding quotes in our entire portfolio many times per second. Certain aspects of the model rely on historical prices of securities. If the behavior of price movements of individual securities diverges substantially from what their historical behavior would predict, we might incur trading losses. We attempt to limit such risks by diversifying our portfolio across many different options, futures and underlying securities and avoiding concentrations of positions based on the same underlying security. Historically, our losses from these events have been immaterial in comparison to our annual trading profits.

Foreign Currency Exposure

As a result of our international activities and accumulated earnings in our foreign subsidiaries, our income and net worth is exposed to fluctuations in foreign exchange rates. For example, our European operations and some of our Asian operations are conducted by our Swiss subsidiary, IBKRFS. IBKRFS is regulated by the Swiss Financial Market Supervisory Authority as a securities dealer and its financial statements are presented in Swiss francs. Accordingly, IBKRFS is exposed to certain foreign exchange risks as described below:

- IBKRFS buys and sells securities denominated in various currencies and carries bank balances and borrows and lends such currencies in its regular course of business. At the end of each accounting period, IBKRFS' assets and liabilities are revalued into Swiss francs for presentation in its financial statements. The resulting foreign currency gains or losses are reported in IBKRFS' income statement and, as translated into U.S. dollars for U.S. GAAP purposes, in our condensed consolidated statement of comprehensive income, as a component of other income.
- IBKRFS' financial statements are presented in Swiss francs (i.e., its functional currency) as noted above. At the end of each accounting period, IBKRFS' net worth is translated at the then prevailing exchange rate into U.S. dollars and the resulting translation gain or loss is reported as OCI in our condensed consolidated statement of financial condition and condensed consolidated statement of comprehensive income. OCI is also produced by our other non-U.S. subsidiaries.

Historically, we have taken the approach of not hedging the above exposures, based on the notion that the cost of constantly hedging over the years would amount to more than the random impact of rate changes on our non-U.S. dollar balances. For instance, an increase in the value of the Swiss franc would be unfavorable to the earnings of IBKRFS but would be counterbalanced to some extent by the fact that the translation gain or loss into U.S. dollars is likely to move in the opposite direction.

Our risk management systems incorporate cash forex to hedge our currency exposure at little or no cost throughout each day on a continuous basis. The majority of currency spot positions held as part of our currency diversification strategy are regularly transferred to the parent holding company, IBG LLC, where they are held and reported in the corporate segment. In connection with the development of our currency diversification strategy, we determined to base our net worth in GLOBALs, a basket of currencies.

Because we conduct business in many countries and many currencies and because we consider ourselves a global enterprise based in a diversified basket of currencies rather than a U.S. dollar based company, we actively manage our global currency exposure by maintaining our equity in GLOBALs. The U.S. dollar value of the GLOBAL decreased from \$0.969 to \$0.959, or 0.95%, as of September 30, 2019 compared to September 30, 2018. As of September 30, 2019, approximately 29% of our equity was denominated in currencies other than the U.S. dollar.

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The table below shows a comparison of the U.S. dollar equivalent of the GLOBAL as of September 30, 2019 and 2018.

Currency	Composition	As of 9/30/2018					As of 9/30/2019					CHANGE in % of Comp.
		FX Rate	GLOBAL in USD Equiv.	% of Comp. (in USD millions)	Net Equity		FX Rate	GLOBAL in USD Equiv.	% of Comp. (in USD millions)	Net Equity		
USD	0.68	1.0000	0.680	70.2%	\$ 4,847		1.0000	0.680	70.9%	\$ 5,424		0.7%
EUR	0.09	1.1607	0.104	10.8%	744		1.0899	0.098	10.2%	782		-0.6%
JPY	4.41	0.0088	0.039	4.0%	276		0.0093	0.041	4.3%	325		0.2%
GBP	0.02	1.3031	0.026	2.7%	186		1.2295	0.025	2.6%	196		-0.1%
HKD	0.14	0.1277	0.018	1.8%	127		0.1276	0.018	1.9%	142		0.0%
INR	1.10	0.0138	0.015	1.6%	108		0.0142	0.016	1.6%	124		0.1%
CHF	0.02	1.0183	0.020	2.1%	145		1.0020	0.020	2.1%	160		0.0%
CAD	0.02	0.7747	0.015	1.6%	110		0.7553	0.015	1.6%	121		0.0%
CNH	0.10	0.1454	0.015	1.5%	104		0.1400	0.014	1.5%	112		0.0%
AUD	0.02	0.7224	0.014	1.5%	103		0.6752	0.014	1.4%	108		-0.1%
MXN	0.17	0.0534	0.009	0.9%	65		0.0507	0.009	0.9%	69		0.0%
SEK	0.05	0.1125	0.006	0.6%	40		0.1016	0.005	0.5%	41		-0.1%
NOK	0.03	0.1228	0.004	0.4%	26		0.1099	0.003	0.3%	26		0.0%
DKK	0.02	0.1556	0.003	0.3%	22		0.1460	0.003	0.3%	23		0.0%
			0.969	100.0%	\$ 6,903			0.959	100.0%	\$ 7,653		0.0%

The effects of our currency diversification strategy appear in two places in the condensed consolidated financial statements: (1) as a component of other income in the condensed consolidated statement of comprehensive income and (2) as OCI in the condensed consolidated statement of financial condition and the condensed consolidated statement of comprehensive income. The full effect of the GLOBAL is captured in the condensed consolidated statement of comprehensive income.

Reported results on a comprehensive basis reflect the U.S. GAAP convention that requires the reporting of currency translation results contained in OCI as part of reportable earnings.

Interest Rate Risk

We had no variable-rate debt outstanding as of September 30, 2019.

We pay our electronic brokerage customers interest based on benchmark overnight interest rates in various currencies, on cash balances above \$10 thousand (or equivalent) in securities accounts. In a normal rate environment, we typically invest a portion of these funds in U.S. government securities with maturities of up to two years. If interest rates were to increase rapidly and substantially, our net interest income would not increase proportionally with the interest rates for the portion of the funds invested in the U.S. government securities with fixed yields. In addition, the mark-to-market changes in the value of these fixed rate securities will be reflected in other income, instead of net interest income. Based on customer balances and investments outstanding as of September 30, 2019, and assuming reinvestment of maturing instruments in instruments of short-term duration, an unexpected increase of 0.25% over current U.S. dollar interest rate levels would increase our net interest income by approximately \$16 million over the first year and \$21 million on an annualized basis, assuming the full effect of reinvestment at higher rates. Our interest rate sensitivity estimate contains separate assumptions for U.S. dollar rates from other currencies' rates and it isolates the effects of a rate increase on reinvestments. We do not approximate mark-to-market impact from interest rate changes; if U.S. government securities whose prices were to fall under these scenarios were held to maturity, as intended, then the reduction in other income would be temporary, as the securities would mature at par value.

We also face the potential for reduced net interest income from customer deposits due to interest rate spread compression in a low rate environment. Based on customer balances and investments outstanding as of September 30, 2019, and assuming reinvestment of maturing instruments in instruments of short-term duration, an unexpected decrease in U.S. dollar interest rates of 0.25% would decrease our net interest income by approximately \$15 million over the first year and \$21 million on an annualized basis, assuming the full effect of reinvestment at lower rates.

We also face interest rate risk due to positions carried in our market making business to the extent that long or short stock positions may have been established for future or forward dates on options or futures contracts and the value of such positions are impacted by interest rates. The amount of such risk cannot be quantified, however, the reduction of market making positions has substantially reduced this exposure.

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Dividend Risk

We face dividend risk in our market making business as we derive revenues and incur expenses in the form of dividend income and expense, respectively, from our inventory of equity securities, and must make payments in lieu of dividends on short positions in equity securities within our portfolio. Projected future dividends are an important component of pricing equity options and other derivatives, and incorrect projections may lead to trading losses. The amount of such risk cannot be quantified, however, the reduction of market making positions has substantially reduced this exposure.

Margin Loans

We extend margin loans to our customers, which are subject to various regulatory requirements. Margin loans are collateralized by cash and securities in the customers' accounts. The risks associated with margin credit increase during periods of fast market movements or in cases where collateral is concentrated and market movements occur. During such times, customers who utilize margin loans and who have collateralized their obligations with securities may find that the securities have a rapidly depreciating value and may not be sufficient to cover their obligations in the event of a liquidation. We are also exposed to credit risk when our customers execute transactions, such as short sales of options and equities that can expose them to risk beyond their invested capital.

We expect this kind of exposure to increase with the growth of our overall business. Because we indemnify and hold harmless our clearing houses and counterparties from certain liabilities or claims, the use of margin loans and short sales may expose us to significant off-balance-sheet risk in the event that collateral requirements are not sufficient to fully cover losses that customers may incur and those customers fail to satisfy their obligations. As of September 30, 2019, we had \$26.0 billion in margin loans extended to our customers. The amount of risk to which we are exposed from the margin loans we extend to our customers and from short sale transactions by our customers is unlimited and not quantifiable as the risk is dependent upon analysis of a potential significant and undeterminable rise or fall in stock prices. Our account level margin requirements meet or exceed those required by Regulation T of the Board of Governors of the Federal Reserve and FINRA portfolio margin rules, as applicable. As a matter of practice, we enforce real-time margin compliance monitoring and liquidate customers' positions if their equity falls below required margin requirements.

We have a comprehensive policy implemented in accordance with regulatory standards to assess and monitor the suitability of investors to engage in various trading activities. To mitigate our risk, we also continuously monitor customer accounts to detect excessive concentration, large orders or positions, patterns of day trading and other activities that indicate increased risk to us.

Our credit exposure is to a great extent mitigated by our policy of automatically evaluating each account throughout the trading day and closing out positions automatically for accounts that are found to be under-margined. While this methodology is effective in most situations, it may not be effective in situations where no liquid market exists for the relevant securities or commodities or where, for any reason, automatic liquidation for certain accounts has been disabled. Our Risk Management Committee continuously monitors and evaluates our risk management policies, including the implementation of policies and procedures to enhance the detection and prevention of these type of events to mitigate margin loan losses.

Value-at-Risk

We estimate VaR using an historical approach, which uses the historical daily price returns of underlying assets as well as estimates of the end of day implied volatility for options. Our one-day VaR is defined as the unrealized loss in portfolio value that, based on historically observed market risk factors, would have been exceeded with a frequency of one percent, based on a calculation with a confidence interval of 99%.

Our VaR model generally takes into account exposures to equity and commodity price risk and foreign exchange rates.

We use VaR as one of a range of risk management tools. Among their benefits, VaR models permit estimation of a portfolio's aggregate market risk exposure, incorporating a range of varied market risks and portfolio assets. One key element of the VaR model is that it reflects risk reduction due to portfolio diversification or hedging activities. However, VaR has various strengths and limitations, which include, but are not limited to: use of historical changes in market risk factors, which may not be accurate predictors of future market conditions, and may not fully incorporate the risk of extreme market events that are outsized relative to observed historical market behavior or reflect the historical distribution of results beyond the confidence interval; and reporting of losses in a single day, which does not reflect the risk of positions that cannot be liquidated or hedged in one day. A small proportion of market risk generated by trading positions is not included in VaR. The modeling of the risk characteristics of some positions relies on approximations that, under certain circumstances, could produce significantly different results from those produced using more precise measures. VaR is most appropriate as a risk measure for trading positions in liquid financial markets and will understate the risk associated with severe events, such as periods of extreme illiquidity.

The VaR calculation simulates the performance of the portfolio based on several years of daily price changes of the underlying assets and determines the VaR as the calculated loss that occurs at the 99th percentile.

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Since the reported VaR statistics are estimates based on historical data, VaR should not be viewed as predictive of our future revenues or financial performance or of our ability to monitor and manage risk. There can be no assurance that our actual losses on a particular day will not exceed the indicated VaR or that such losses will not occur more than one time in 100 trading days. VaR does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.

Stress Test

We estimate the market risk of our fixed income portfolio using a risk analysis model provided by a leading external vendor. For corporate bonds, this stress test is configured to calculate the change in value of each fixed income security in the portfolio over one day in seven scenarios, each of which represents a parallel shift of the U.S. Treasury yield curve. The scenarios are shifts of ± 100 , ± 200 and ± 300 basis points. For U.S. government securities, the stress test is configured to calculate the change in value of each fixed income security in the portfolio over one day in three scenarios each of which represents a parallel shift of the U.S. Treasury yield curve. The scenarios are shifts of ± 25 basis points.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective, in all material respects, to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the period covered by this report quarter that has materially affected, or is likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

There have been no material changes to the legal proceedings disclosed under Part 1, Item 3 of our Annual Report on Form 10-K filed with the SEC on February 28, 2019 except as updated by this Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 in Note 13 to the unaudited condensed consolidated financial statements.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in under Part 1, Item 1A of our Annual Report on Form 10-K filed with the SEC on February 28, 2019 except as updated by this Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 in the second paragraph below.

Regulatory and legal uncertainties could harm our business. The securities and derivatives businesses are heavily regulated. Firms in financial service industries have been subject to an increasingly regulated environment over recent years, and penalties and fines sought by regulatory authorities have increased accordingly. This regulatory and enforcement environment has created uncertainty with respect to various types of transactions that historically had been entered into by financial services firms and that were generally believed to be permissible and appropriate. Our broker-dealer subsidiaries are subject to regulations in the U.S. and abroad covering all aspects of their business. Regulatory bodies include, among others, in the U.S., the SEC, FINRA, the Board of Governors of the Federal Reserve System, the Chicago Board Options Exchange, the Chicago Mercantile Exchange, the CFTC, and the National Futures Association; in Canada, the Investment Industry Regulatory Organization of Canada and various Canadian securities commissions; in the United Kingdom, the Financial Conduct Authority; in Switzerland, the Swiss Financial Market Supervisory Authority; in India, the Securities and Exchange Board of India; in Hong Kong, the Securities and Futures Commission; in Australia, the Australian Securities and Investment Commission; and in Japan, the Financial Supervisory Agency and the Japan Securities Dealers Association. Our mode of operation and profitability may be directly affected by additional legislation, changes in rules promulgated by various domestic and foreign government agencies and self-regulatory organizations that oversee our businesses, and changes in the interpretation or enforcement of existing laws and rules, including the potential imposition of transaction taxes. Noncompliance with applicable laws or regulations could result in sanctions being levied against us, including fines and censures, suspension or expulsion from a certain jurisdiction or market or the revocation or limitation of licenses. Noncompliance with applicable laws or regulations could adversely affect our reputation, prospects, revenues and earnings. In addition, changes in current laws or regulations or in governmental policies could adversely affect our business, financial condition and results of operations. While we do not believe that the outcome of these uncertainties will have a materially adverse effect on our financial results, the financial impact of regulatory and legal uncertainties cannot be predicted.

We are subject to regulatory oversight and examination by numerous governmental and self-regulatory authorities and are currently providing information to certain of such authorities, including FINRA, the SEC, the CFTC and the United States Department of Justice, and cooperating with those authorities. We believe that the regulators are focused on compliance practices, including anti money laundering and Bank Secrecy Act practices. We periodically review these practices to make them more robust and to keep pace with changing regulatory standards, and we have been enhancing and augmenting our procedures and personnel in these areas over the past several years. The outcome of the examinations and inquiries currently in progress cannot be predicted. While we do not believe that the outcome of the current examinations and inquiries will have a materially adverse effect on our financial results, the outcome of those examinations and inquiries cannot be predicted.

Domestic and foreign stock exchanges, other self-regulatory organizations and state and foreign securities commissions can censure, fine, issue cease-and-desist orders, suspend or expel a broker-dealer or any of its officers or employees. Our ability to comply with all applicable laws and rules is largely dependent on our internal systems to ensure compliance, as well as our ability to attract and retain qualified compliance personnel. We could be subject to disciplinary or other actions in the future due to claimed noncompliance, which could have a material adverse effect on our business, financial condition and results of operations. To continue to operate and to expand our services internationally, we may have to comply with the regulatory controls of each country in which we conduct, or intend to conduct business, the requirements of which may not be clearly defined. The varying compliance requirements of these different regulatory jurisdictions, which are often unclear, may limit our ability to continue existing international operations and further expand internationally.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of IBG LLC membership interests, held by Holdings, by the Company are governed by the Amended Exchange Agreement, which was filed on Exhibit 10.1 to the Quarterly Report on Form 10-Q for Quarterly Period Ended September 30, 2015 filed by the Company on November 9, 2015. At the time of the Company's IPO in 2007, three hundred sixty (360) million shares of authorized common stock were reserved for future sales and redemptions.

On an annual basis, each holder of a membership interest may request that the liquefiable portion of that holder's interest be redeemed by Holdings. We expect Holdings to use the net proceeds it receives from such sales to redeem an identical number of Holdings membership interests from the requesting holders.

With the consent of Holdings and the Company (on its own behalf and acting as the sole managing member of IBG LLC), IBG LLC agreed in July 2019 to redeem certain membership interests from Holdings through the sale of common stock and the distribution of the proceeds of such sale to the beneficial owners of such membership interests.

On July 26, 2019, the Company issued 21,075 shares of Class A common stock (with a fair value of \$1 million) to Holdings, for distribution to, certain of its members in exchange for membership interests in IBG LLC equal in number to such number of shares of common stock issued by the Company. The acquired shares were distributed in-kind to the members of Holdings who elected to redeem a portion of their Holdings membership interests.

Neither Mr. Thomas Peterffy nor his affiliates have elected to redeem any of their Holdings membership interests and therefore have no interest in the proceeds of sale or distribution of the shares of Class A common stock acquired by Holdings on July 26, 2019.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 5. OTHER INFORMATION

None

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ITEM 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Interactive Brokers Group, Inc. (filed as Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form S-1 filed by the Company on April 4, 2007). **
3.2	Amended bylaws of Interactive Brokers Group, Inc. (filed as Exhibit 3.1 to the Form 8-K filed by the Company on February 24, 2016). **
10.1	Amended and Restated Operating Agreement of IBG LLC (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2007 filed by the Company on June 15, 2007). **
10.2	Form of Limited Liability Company Operating Agreement of IBG Holdings LLC (filed as Exhibit 10.5 to Amendment No. 1 to the Registration Statement on Form S-1 filed by the Company on February 12, 2007). **
10.3	Exchange Agreement by and among Interactive Brokers Group, Inc., IBG Holdings LLC, IBG LLC and the Members of IBG LLC (filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2009 filed by the Company on November 11, 2009). **
10.4	Tax Receivable Agreement by and between Interactive Brokers Group, Inc. and IBG Holdings LLC (filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2007 filed by the Company on June 15, 2007). **
10.5	Interactive Brokers Group, Inc. 2007 Stock Incentive Plan, as of April 19, 2018. (filed as exhibit 10.9 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2018, filed by the Company on August 8, 2018). **+
10.6	Interactive Brokers Group, Inc. 2007 ROI Unit Stock Plan. (filed as Exhibit 10.9 to Amendment No. 2 to the Registration Statement on Form S-1 filed by the Company on April 4, 2007). **+
10.7	Interactive Brokers Group, Inc. Amendment to the Exchange Agreement (filed as Exhibit 10.1 to the Form 8-K filed by the Company on June 6, 2012). **+
10.8	Second Amendment to Exchange Agreement by and among Interactive Brokers Group, Inc., IBG Holdings LLC, IBG (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 31, 2015 filed by the Company on November 9, 2015). **
10.9	First Amendment to Limited Liability Company Agreement of IBG Holdings LLC (filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 31, 2015 filed by the Company on November 9, 2015). **
31.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Extension Schema*
101.CAL	XBRL Extension Calculation Linkbase*
101.DEF	XBRL Extension Definition Linkbase*
101.LAB	XBRL Extension Label Linkbase*
101.PRE	XBRL Extension Presentation Linkbase*
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101).

** Previously filed; incorporated herein by reference.

+ These exhibits relate to management contracts or compensatory plans or arrangements.

* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019, are the following materials formatted in iXBRL (Inline eXtensible Business Reporting Language) (i) the Condensed Consolidated Statements of Financial Condition, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Consolidated Statement of Changes in Stockholders' Equity and (v) Notes to the Condensed Consolidated Financial Statements tagged in detail levels 1-4.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERACTIVE BROKERS GROUP, INC.

/s/ PAUL J. BRODY

Name: Paul J. Brody

Title: *Chief Financial Officer, Treasurer and Secretary*

(Signing both in his capacity as a duly authorized officer and as principal financial officer of the registrant)

Date: November 12, 2019