

Interactive Brokers Group's (IBKR)

Q2 2019 Results - Earnings Call Transcript

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Executives

Thomas Peterffy - Chairman and CEO

Paul Brody - CFO

Nancy Stuebe - Director, IR

Analysts

Will Nance *Goldman Sachs*

Kyle Voigt *Keefe, Bruyette, & Woods*

Rich Repetto, *Sandler O'Neill*

Mac Sykes, *G. Research*

Chris Allen, *Compass Point Research*

Chris Harris, *Wells Fargo Securities*

Operator

Good day, ladies and gentlemen, and welcome to the Interactive Brokers Group Second Quarter Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded.

I would now like to introduce your host for today's conference, Ms. Nancy Stuebe, Director of Investor Relations. Ma'am, you may begin.

Nancy Stuebe

Good afternoon, everyone. Thank you for joining us to review our 2019 second quarter performance. Thomas is on the call but asked me to present his comments on the business. He will handle the Q&A.

As a reminder, today's call may include forward-looking statements, which represent the company's belief regarding future events, which by their nature are not certain and are outside of the company's control. Our actual results and financial condition may differ possibly materially from what is indicated in these forward-looking statements. We ask that you refer to the disclaimers on our press release. You should also review a description of risk factors contained in our financial reports filed with the SEC.

Our business continues to grow, and we again achieved new records on our electronic broker. Our total accounts grew by 19% or more than 100,000 net new accounts from last year, while our client equity grew by more than \$18 billion or 14% over the course of the year.

Though the average VIX volatility index this quarter was slightly below 2018, our DARTs grew by 4%, since having more accounts and more clients on our platform leads to more trades. We continue to focus on growing our customer base in all client segments. This generates more activity for new customers coming onto our platform and takes advantage of all of our accounts trading more during periods of higher volatility.

Our brokerage business continues to be strong. Brokerage revenues adjusted for Treasury marks were up 6% versus last year, and our pretax margin was 63%.

I will highlight some of the expanded range of offerings announced this quarter. We constantly seek to improve our platform and to bring it to more potential clients.

First, we added several new market centers this quarter, including the Moscow Exchange, and our clients now have the capability to invest seamlessly in securities and other products on over 125 market centers in 31 countries.

As of May 6, our customers began trading CME Group Micro E-mini Futures. The CME has called us the most successful product launch in their history, and we were ready the first day these futures were available to trade.

This quarter also saw the introduction of our Stock Yield Enhancement Program in Canada. Interactive Brokers Canada clients can now lend fully-paid Canadian shares of stock to earn additional yield. By enrolling easily online, they can earn extra interest by lending shares to borrowers. We are the first broker to offer this program in Canada.

Our bond desk added a direct connection to Tradeweb Institutional, which can be accessed on our Trader Workstation. Interactive Brokers currently supports high yield and emerging market bonds, and we anticipate adding other fixed income asset classes later this year.

Next, our integrated cash management program continues to expand. Our clients can now access the ACH network for mobile payments directly from their IBKR accounts. This, along with our existing Direct Deposit and Bill Pay functions, gives our clients a suite of desktop and mobile financial services capability, all easily accessible from one account.

Finally, on June 30, we were proud to announce our new BET, LEARN, WIN simulated sports betting exchange. This operates as a peer-to-peer market, where participants can buy, sell and trade bets on actual sporting events in real time. Players get \$1,000 in virtual dollars, Euros, pounds or Canadian dollars and use it to buy or sell simulated sports bets. Their winnings can be converted to up to \$1,000 in free commissions once a participant has opened an Interactive Brokers account. Our goal here is to attract customers more familiar with the probabilities of spectator sports than with the financial markets, and who are new to our brokerage platform.

We are committed to bringing our platform to the greatest number of people. Sometimes, we do this by working on projects for investors already experienced in the securities market. Sometimes, we do this by working on projects that introduce new potential investors to the markets. We want to become the largest broker in the world. BET, LEARN, WIN is one way we can tap into a segment of the population that represents potentially millions of new individual customers.

Now for the breakdown by customer type of how our brokerage business is evolving. We once again saw strong growth in accounts and client equity. However, we saw weaker commission

revenue outside the U.S. as some markets fell as measured, for example, by the Nikkei, Hang Seng and FTSE 100 indices.

For the second quarter, individual customers were 49% of all accounts, up 17% for the latest 12 months; while individuals' customer equity was 35%, up 13%; and commissions were 51%, about flat with last year. Customer equity growth was up double digits in all regions, while commissions were up in the U.S. but weaker outside it.

Hedge funds were 1% of our accounts, up 7% for the 12-month period; 9% of our client equity, up 3%; and 10% of our commissions, up 16%. Our price execution, low overall cost and high cash interest continue to attract institutions both large and small. Growth in this area was strong in both developed and developing markets.

Proprietary trading accounts were 2% of accounts, up 11%; 10% of client equity, up 9%; and 14% of commissions, down 13% due to weakness in international markets.

Registered investment advisers represented 16% of our customer accounts, up 10% for the latest 12 months; 23% of our customer equity, up 12%; and 16% of our commissions, down 3%. Once again, overseas markets caused the overall decline in commissions. The RIA segment continues to benefit from our new products, our easy-to-use mass upload capability, low commission rates and high interest on cash balances as well as the important fact that we do not charge an RIA multiple fees to allocate a trade among multiple customer accounts.

Finally, introducing brokers are 32% of our customer accounts, up 29% over the last 12 months; 23% of our customer equity, up 23%; and 9% of our commission income, up 7%. The introducing broker segment continues to benefit from the tailwind of 2 major trends: the increasing regulatory burden worldwide, which makes outsourcing your back office the best solution; and the growth of a new investor class in developing countries, many of whom want to trade internationally.

While we look forward to a resolution of trade issues in Asia, we have not yet seen any change in the ability of mainland China accounts to fund as they had in the past.

The continued growth we see in this segment shows that we have many opportunities. And because we offer a platform with access to global markets, we are a necessary solution for brokers looking to outsource their back office. We are well diversified in terms of the countries and companies we provide our introducing broker services to, and are seeing growth worldwide in every region we operate in.

And now Paul Brody will take you through the numbers. Paul?

Paul Brody

Thank you, Nancy. Thanks, everyone, for joining the call today. As usual, I'll review our results. I'll put our numbers into context within the current environment, and then we will take some time for Q&A.

Operating metrics reflected reasonably active trading in a moderate volatility environment. Volatility, as measured by the average VIX, declined to 15.2 this quarter, a 2% drop from the year ago quarter. Once again, the average masked some intra-quarter weakness as the VIX fell in April, recovered in May and declined again in June.

This declining volatility trend led to year-over-year drops in cleared customer options and futures contract volumes and share volume in stocks, although the stock volume was also impacted by our cutback in micro-cap stocks, which took place during the first half of 2018. Foreign exchange dollar volumes is down as well.

Total accounts reached 645,000, up 19%, which contributed to customer equity growth of 14% to \$153.1 billion at quarter end.

With the continued tailwind from new account growth, our quarterly total DARTs were 828,000, up 4% over last year.

Our overall average cleared commission for DARTs fell 5% versus last year to \$3.68 on a product mix that featured smaller average trade sizes in most product segments.

Moving to our net interest margin table. Our net interest margin widens to 1.66% from 1.61% in the second quarter of 2018.

The Federal Reserve held rates steady again this quarter after raising rates 4 times over the course of 2018.

As the yield curve has flattened and even inverted, we have continued to shorten the duration of our fixed income portfolio, and we recorded a modest mark-to-market gain this quarter of \$5 million on our holdings of U.S. Treasuries. As a reminder, we plan to hold these securities to maturity; as brokers, GAAP rules require us, unlike banks, to mark them to market in our financial reporting.

Greater customer cash balances, combined with an average Fed funds rate for the quarter 66 basis points higher than last year, generated more net interest income on invested cash. We believe our continued success in asset gathering can lead to larger contributions from interest-sensitive assets going forward.

Our FDIC Insured Bank Deposit Sweep Program continues to grow, reaching \$2.1 billion.

Margin lending and segregated cash management were the most significant contributors to our net interest margin. Average margin loan balances this quarter declined from the stronger borrowing demand we observed in the market environment in the last year's second quarter. However, the decline in balances was more than offset by higher benchmark Fed funds rate, resulting in margin interest income growth of 15%.

Driven by higher customer cash balances and hikes in the Fed funds rate, our segregated cash interest income more than doubled over the prior year quarter. As a reminder, there are 2 factors that can cause the change in yield on our segregated cash to differ from a change in the Fed funds rate. First, currently about 25% of our customer credits are not in U.S. dollars; and second, even with an average duration of our investment under 50 days, there is some lag time in reinvesting in new rates. These factors lead to an expectation that our effective interest rates would not follow a change in the Fed fund rates immediately. The increase in segregated cash is a function of both the growth in our accounts and the decrease in margin loans.

Securities lending interest income was down 9% from the year ago quarter, as there were fewer hard-to-borrow names that investors were looking to short. Note also that as benchmark rates rise, as they did over 2018, a greater portion of the interest income on securities lending is classified as interest income earned on segregated funds because the collateral received in securities lending is cash.

Now for our estimate of the impact of the next 25 basis point change in rates. Market expectations of rate changes are typically built into the yields of instruments in which we invest. Therefore, in our calculation, we attempt to isolate the impact to our earnings of an unexpected rise or fall in rates separate from the impact of rate hikes or cuts that have already been baked into the prices of these instruments. We would, therefore, expect the next 25 basis point unanticipated increase in rates to result in \$20 million, or about 2%, more in net interest income as a yearly run rate. The 25 basis point unanticipated decrease in rates would similarly result in \$20 million, or about 2%, less in net interest income as a yearly run rate.

Turning to the segments, beginning with Electronic Brokerage, turned in a solid performance in a modest volatility environment. Net revenues were \$473 million for the quarter, up 7% over last year. Pretax income was \$302 million, also up 7%. Excluding marks on our Treasury investment portfolio, pretax income was \$297 million for a pretax margin of 63%. Fixed expenses in brokerage were \$107 million, up 10%, driven by higher compensation and benefits, in line with our hiring to support the growing brokerage business, with increased legal and compliance expenses a secondary factor. Customer bad debt expense was \$4 million, within the \$0 to \$5 million range we typically have experienced in the past.

Market Making today consists of the customer facilitation business we will retain as well as a small handful of profitable markets outside the U.S., which we continue to evaluate. Net revenues were \$20 million, of which \$6 million were trading gains, and the bulk of the remainder was net interest income. Market Making pretax income was \$11 million.

The Corporate segment reflects the result of our strategic investments and the effects of our

currency diversification strategy. For the second quarter, we recorded a mark-to-market loss from our investment in Tiger Brokers of \$74 million, which largely offsets the mark-to-market gain of \$103 million recognized in the first quarter of 2019 after Tiger's IPO in March. Life to date on this investment, we have recognized a net gain of \$29 million. We will continue to mark this investment to market each quarter, which may lead to further variability in our Corporate segment earnings for as long as we hold this position.

As to currency diversification effects, we carry our equity in proportion to a basket of 14 currencies we call the GLOBAL, to best reflect the international scope of our business. As the U.S. dollar weakened against most other major currencies this quarter, we incurred a net gain from our strategy of about \$10 million, of which a \$6 million loss is included in earnings and a \$16 million gain is reported as other comprehensive income. We estimate the total increase in comprehensive earnings per share from currency effects to be \$0.02 with a \$0.02 loss reported in Other Income and a \$0.04 gain reported as OCI.

Turning to the income statement, net revenues were \$413 million, down 7% from a year ago. Adjusted for nonoperating items, net revenues were \$487 million, up 5% over last year. Nonoperating items include the \$6 million loss on our currency strategy and the \$74 million loss on marking our Tiger Brokers investment to market, partially offset by the \$5 million gain on our Treasury marks.

Commission revenue declined 4% on lower volumes and smaller trade sizes, primarily in futures. As we noted earlier, the decline of our overall average cleared commission per DART to \$3.68 reflected smaller trade sizes across most product segments. Of our \$259 million net interest income, brokerage produced \$251 million; Market Making, \$9 million; and Corporate, the remainder.

Other income, which includes our GLOBAL currency strategy, mark-to-market on our Treasury and Tiger Brokers investment, and other fees and income we received, was a loss of \$30 million. The GLOBAL and the investment in Tiger Brokers return losses while other areas of other income, primarily fees and Treasury marks, showed offsetting revenues somewhat higher than in

the year ago quarter.

Noninterest expenses were \$188 million for the quarter, up \$14 million or 8% from last year. The increase was spread across several categories, including employee compensation and G&A costs in support of our growing business. 5% drop in execution and clearing costs reflected lighter trading volumes.

At quarter end, our total headcount stood at 1,519, a 16% increase over the year ago total. We have been hiring most aggressively in the areas of compliance, client services and software development.

Pretax income of \$225 million was down 17% and represented a 54% pretax margin. Adjusted for the nonoperating items I mentioned previously, pretax income was \$299 million, up 3% and represented a 61% pretax margin.

Diluted earnings per share were \$0.43 for the quarter versus \$0.57 for the same period in 2018. Comprehensive diluted earnings per share, which includes all currency effects, were \$0.46 for the quarter versus \$0.39 last year. Without the impact from the nonoperating items, diluted earnings per share would have been \$0.57 versus \$0.58 last year on the same basis.

To help investors better understand our earnings, the split between public shareholders and the noncontrolling interest is as follows:

Starting with reported income before income taxes of \$225 million, we removed \$1 million net expense attributable only to the public company to get pretax income for the operating company. We then deduct \$9 million for income taxes paid by our operating companies, which are mostly foreign taxes.

This leads \$217 million, of which 82%, or that \$178 million reported on our income statement, is attributable to noncontrolling interest. The remaining 18%, or \$39 million, is available for the public company shareholders. But as this is a non-GAAP measure, it is not reported on our income statement.

After we add back the \$1 million net expense attributable only to the public company and deduct taxes of \$6 million owed on the remaining \$38 million, net income available for common stockholders is the \$32 million you see reported on our income statement. The income tax expense you see on our income statement of \$15 million consists of the \$6 million paid by the public company plus the \$9 million paid by the operating company.

Turning to the balance sheet, it remains highly liquid with low leverage. We're extremely well capitalized and continue to deploy our equity capital in the growing brokerage business. We hold excess capital in order to take advantage of opportunities as well as to emphasize the strength and depth of our balance sheet. We continue to carry no long-term debt.

At June 30, margin debits were \$25.9 billion, a decrease of 11% from the more risk-on environment we saw last year. As we have mentioned in the past, this figure will likely show some swings due to our success in attracting institutional hedge fund customers who are more opportunistic in taking on leverage. Our conservative balance sheet management supports the growing worldwide margin lending business.

Our consolidated equity capital at June 30, 2019, was \$7.6 billion. \$6.4 billion was held in brokerage, \$0.9 billion in Market Making and customer facilitation activities and the remainder in Corporate.

I will turn the call back over to moderator and take some questions.

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Rich Repetto with Sandler O'Neill.

Rich Repetto

I guess, Thomas, you've been a lot more successful entrepreneur than probably anybody on the call. So I'm just trying to understand and get your thinking behind the transfer or the lead in of the BET, LEARN, WIN platform, how you can take the sports betting and how they can make the

connection to trading on your platform. What will be the things that they'll find similar? And what gets you so excited about the platform?

Thomas Peterffy

So your question seems to indicate to me that you haven't tried it.

Rich Repetto

I haven't tried it yet.

Thomas Peterffy

Right. So those of you on the call who have tried it, I think know why this introduction is going to lead us to many, many new accounts. As you know, we have 5 kinds of business types, right, yes? And so we have the individual traders, the prop accounts, the financial advisers, the hedge funds and the introducing brokers. So this enterprise is only basically trying to attract the individual customer. But I think it will do that in a very, very big way because, for example, I was on it while Wimbledon was on for 4 hours. It is extremely entertaining, especially as the game goes on.

So if any of you have any questions, I really would suggest that you try it. Now once you try it and you play a few games, make a few bets, you will get to like the platform, and it will be a very small jump from there to open an actual brokerage account. So that's the thinking behind it.

Rich Repetto

Okay. I'll give it a shot, Thomas, I promise.

Thomas Peterffy

I really ask you to give it a shot.

Rich Repetto

I guess another question...

Thomas Peterffy

It takes 3 minutes to open an account, to make, 2 to 3 minutes.

Rich Repetto

And I watch sports a lot. I will certainly give it a shot.

Thomas Peterffy

Yes, please do.

Rich Repetto

Another question would be, you talked about the shares per trade, the averages shares traded. It's still going down. And I guess when we looked at it on a per day basis, it's lower than even 3Q. It's at an all-time low. I mean, I guess, we learned from the call, it's partly a result of the volatility as well as sort of a macro -- or the other headwinds you faced.

Thomas Peterffy

One of the significant reasons for that is low-priced stocks. So as you know, we are limiting our low-priced stock commission to no more than 0.5% over the trade volume. So that made us the very, very lowest cost broker for low-priced stocks even more than we are generally the lowest cost broker for all kinds of stocks.

Now we had pushback from the regulators about low-priced stocks, because low-priced stocks are sometimes used to manipulate the market, et cetera, so we just decided that it's not worth the expense of surveying or monitoring low-priced stock trading to the extent that the regulators would like us to do. So we would like -- we would choose to decline most low-priced stock orders.

Rich Repetto

Okay. I mean when we -- I looked at the OTC equity, the pink sheet volumes, they are low, too. I'd imagine it's reflecting the same, what do you call it, monitoring or oversight -- increased monitoring and oversight, I would imagine, the pink sheet volume.

I guess last question for me is for Paul. On the interest rate sensitivity, I believed you said it was - - I think you said \$20 million, either way, \$20 million up on a hike or \$20 million down. And it differs a little bit. I think from the last time, you said I thought it was \$13 million, and then it would switch after a year to what it was \$20 million or \$23 million, I think it was \$23 million, after a year the full impact. Could you explain why that sort of explanation of the guidance has changed?

Paul Brody

Sure. Absolutely. In fact, we got some feedback that people weren't much paying attention to what we used to report as the immediately following 4 quarters. I'd be happy to report to you now that it's fairly symmetrical - the full run rate being \$20 million up or down and the first year being \$14 million to \$15 million effect up or down, respectively. If you'd like, we can continue to report it that way. We're just getting feedback that most people are focused on what's the full year run rate.

Operator

And our next question comes from Will Nance with Goldman Sachs.

Will Nance

Maybe one for Thomas. I wanted to hit on the sports betting as well. I think you mentioned that part of this is aimed at getting people who are less familiar with financial markets onto the platform and getting them more comfortable with making trades. Could you talk about what your expectations are for the type of customer that you attract to that platform and how you think about the profitability when those customers ultimately hit the platform? Maybe it's like a result of some of the corporate finance...

Thomas Peterffy

I started my career in the securities business by going down to the American Stock Exchange as a market maker, and I was absolutely stunned that all these professional traders on the floor, all they talked about all day long were the games. They didn't talk about the stocks.

They were talking about the games and what game they are going to, and they're of course betting in a big way. Even though they were betting, according to my book, with the stocks and options all the time, but what they really wanted to do was to bet on games.

So what type of customers? I think it is somewhat akin to -- I mean people who tend to trade stocks tend to bet on games. I don't know why that is because I'm significantly an exception because I never ever made a bet in my life on a game. But all these other people I was surrounded by, and that's why I kind of felt like an oddball because I wasn't like them. I never bet on the games, and I didn't even know half the time what they were talking about. But it stuck with me that people who trade like to bet on the games.

So I would be speculating if I told you what I expect. But I know that I expect a very, very substantial take-up of this. I mean I'm talking in the millions of customers.

Will Nance

Got it. Appreciate the color. And then maybe just switching gears to the rate sensitivity. I guess it sounds like you guys are shortening duration at the moment, just given the shape of the yield curve. I guess, are there any other levers that we should think about, about maybe the ability to mitigate some of interest rate sensitivity just given the forward curves now pricing in rate cuts? And just broadly, how you're kind of expecting to manage the business if we do see kind of interest rates becoming a headwind over the next 12 months?

Thomas Peterffy

So I generally don't think that the rate cuts will be as deep as is generally expected by the yield curve. I do not understand why short-term Treasuries are trading at -- 2-year Treasuries are trading at 1.8-some percent. I doubt that we'll ever get there with the Fed funds.

So as you know, we are paying our customers for excess balances -- excess cash balances in their accounts 0.5% under the Fed fund rates, and we are charging them somewhat over that. So we are not as exposed to changes in the rates as other brokers are. So as long as we can invest the money, the free cash, somewhere near Fed funds rate would be all right. And as Paul indicated,

the difference is only about \$20 million per year.

Operator

And our next question comes from Chris Allen with Compass Point.

Chris Allen

Thomas, I was wondering if you can give us any metrics on the simulated sports betting in terms of how many customers have actually logged on and entered bets. And have there any been conversions to accounts? And if there have been, any size of accounts that have been opened?

Thomas Peterffy

Well, we just started this, and we started in a very low, small and cautious way because we still have fixes we have to make, et cetera. So the initial numbers are basically meaningless, and I'd be misleading if I told you anything. I can tell you that, yes, there have been some conversions. But that's all I can say.

Chris Allen

Fair enough. One thing I would ask also is on -- it seems there was an additional disclosure on regulatory matters this quarter, we know you're under constant inquiries by regulators. So I just wanted to -- I didn't see this language in the 10-K. So just wondering, what kind of prompted this disclosure in the earnings release?

Thomas Peterffy

Well, as you know in the current environment, there is an increasing regulatory scrutiny that is surrounding banks and brokers by regulators and government authorities, and we just thought that it would be prudent to make a disclosure specifically highlighting current activities that may affect us to some extent.

Operator

And our next question comes from Kyle Voigt with KBW.

Kyle Voigt

Sure. Just on the simulated sports betting exchange, I was saying that most people who want to bet on games also want to use real money, and they are increasingly able to do so in the U.S. as more states legalize sports betting. Just wondering if Interactive Brokers will be open to eventually opening a live online sports book in the U.S. as more states legalize that. Or is this simulated offering simply just to drive new brokerage accounts in the long term?

Thomas Peterffy

Well, driving new brokerage accounts is the primary purpose. I don't want to speculate about what we may or may not do with this sometime down the road. So right now, our focus is to perfect the platform and drive new brokerage accounts.

Kyle Voigt

Okay. And one for Paul as well. Sorry, if I missed this, Paul. Just regarding your yield on margin borrowings increasing by 13 basis points sequentially. There wasn't any move in U.S. rates in the quarter, so I'm just wondering if that was simply a mix of geography that caused the increase in blended rates or was it different mix and pricing tiers or something else.

Paul Brody

Right. Yes, that's actually primarily the fact that not everything's in U.S. dollars, and that some of the foreign rates did in fact go up and we charged more accordingly because it's the spread-off benchmark.

Operator

(Operator Instructions) Our next question comes from Mac Sykes with Gabelli.

Mac Sykes

I had a few questions. Thomas, what is the advertising and branding strategy for this betting center? Are you thinking about just your traditional media? Or are you thinking about different outlets in terms of reaching people?

Thomas Peterffy

So we are using the banner ads on sports sites. And if you click on one of those banners, you'll come to the landing page, where they explain to you the -- what the deal is.

By the way, Mac, have you opened a betting account?

Mac Sykes

I'm still waiting to do so.

Thomas Peterffy

You're such a disappointment. I was so hoping that you would do that.

Mac Sykes

Well, I will take care of it this week.

Thomas Peterffy

Thank you.

Mac Sykes

And 2 other questions. How much maybe would it cost to support it on an annual basis outside of the marketing cost? And then have you outlined any internal goals for asset gathering over the next year or 2 years?

Thomas Peterffy

Internal goals for asset gathering from this source, you're asking?

Mac Sykes

Yes.

Thomas Peterffy

Well, at least, this source does not gather assets. So your question may be that, from people who convert their account to a brokerage account in order to cash in their commission credits, the answer is no, we have not done that.

Mac Sykes

Okay. And just the ongoing cost to support it?

Thomas Peterffy

The ongoing cost to support it, well, I don't think that's a lot, maybe a single-digit millions of dollars.

Operator

And our next question comes from Chris Harris with Wells Fargo.

Chris Harris

The follow-up on the earlier question about the increase in margin yields sequentially, what non-U.S. rates rose in the quarter that helped to drive that up? Was it rates -- benchmark rates in Asia?

Paul Brody

It was, yes. Certainly not in Europe.

Chris Harris

Yes. Right. Exactly. Can you guys talk to us a little bit more about your investment portfolio? I know you're investing in Treasury securities. But what else is in that portfolio? And what's maybe the breakdown? And I know you gave us the duration, but maybe the breakdown between Treasuries versus perhaps non-Treasuries?

Thomas Peterffy

So there are margin loans, there are Treasuries and the cash in banks. These are the 3 components. The margin loans, you know how much they are. The Treasuries are around \$19 billion, and the rest is cash in banks.

Chris Harris

Okay. I guess last question from me. You guys have been very competitive with the rate you're paying on cash balances. And partly as a result of that, I think you've had very strong growth in your cash balances, and the rest of the industry has seen shrinkage. If the Fed does start cutting rates here and you're required -- you're forced to, I guess, lower the pay rates, do you think some of that growth in balances could potentially be at risk?

Thomas Peterffy

Well, the future growth may be at risk. But I do not think that if the Fed cuts by, say, 0.5 point and therefore we lower by 0.5 a point, I don't think that anybody is going to pull the money out and put it under the mattress.

Operator

And our next question comes from Chris Allen with Compass Point.

Chris Allen

I just had a quick question. Again, I've gotten a bunch of questions on some of the Japanese brokerage commission cuts to 0. And I'm wondering like how you think about the -- was this -- any implication for your business. I would imagine you have some offsets there in terms of competitive pricing around margin lending or FX. So any commentary there would be helpful, if you could.

Thomas Peterffy

So this 0 commission business is a very interesting circumstance. So I assume you are all familiar with the idea that some companies like Robinhood and JPMorgan charge 0 commissions and potentially others may, and they sell the order flow to high-frequency traders, who give you a reasonable execution.

Between you and us, some brokers don't have a choice because they do not have the technology to route orders. So they just -- they don't have a choice. They have to sell it to high-frequency traders who route -- who give them an execution. Because now they -- to build a routing

technology, it wouldn't be enough to route to one exchange -- you would have to route to multiple exchanges, and then you would have to have the software to distinguish within them and have decision-making software as to where to route, at which moment, and how much.

But many of our customers, especially introducing brokers, say to us, "You know what, we really don't care what execution prices you give to our customers." I mean it's horrible to say, but that's what they tell us. So at this point, we have to stop and wonder if we should maybe offer that service to sell to a group of dumb clients.

Chris Allen

Got it. And this is a similar implication for Japan with Monex and some of those brokers? Is that basically the same case here?

Thomas Peterffy

Right. Yes, yes.

Operator

And I am not showing any further questions at this time. I would now like to turn the call back over to Nancy Stuebe for any closing remarks.

Nancy Stuebe

Thank you, everyone, for participating today. As a reminder, this call will be available for replay on our website. We will also be posting a clean version of our transcript on our site tomorrow.

Thank you again, and we will talk to you next quarter end.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program, and you may all disconnect. Everyone, have a wonderful day.