

Interactive Brokers Group's (IBKR)

Q2 2021 Results - Earnings Call Transcript

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Executives

Thomas Peterffy - Chairman

Paul Brody - CFO

Nancy Stuebe - Director, IR

Analysts

Kyle Voigt, *KBW*

Rich Repetto, *Piper Sandler*

Chris Allen, *Compass Point Research*

Daniel Fannon, *Jefferies*

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Interactive Brokers Group Second Quarter Financial Results Conference Call. At this time, all participant lines are in a listen-only mode. After the speakers' presentation, there will be a Q&A session. [Q&A Instructions] And now I would like to hand the conference over to your speaker for today, Nancy Stuebe, Director of Investor Relations, please go ahead.

Nancy Stuebe

Good afternoon, and thank you joining us for our second quarter 2021 earnings conference call. Once again, 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 in our press release. You should also review a description of risk factors contained in our financial reports filed with the SEC.

Q2 was a fantastic quarter. With the exception of the first quarter this year, it was the best one in Interactive Brokers' history. Total accounts grew 61% versus a year ago, a record - save for the first quarter. Client equity grew 79%, growth also outpaced only by Q1. Total client DARTs of 2.3 million were also, except for Q1, a record. The same is true of stock share and options contract volumes.

Our business strength can also be seen in our overall metrics. While our client equity, or the cash and securities in client accounts, grew 79%, client margin loans rose even faster, to a record high of \$49 billion, up 96%. In contrast, client credit balances, or the cash in client accounts, grew 16%. Why? Strong markets and an active client base led our customers to utilize the Interactive Brokers platform to put proportionately more of their money to work in the markets.

As a percent of our client equity, margin loans have risen from a pandemic-outset low of 11.5%, up to 13.4% as investors have grown more confident and want to participate in the markets. This increase is even more impressive when you consider that while the margin loans numerator is based solely on client activity, the denominator of client equity is based on customer activity, plus overall market performance. Even if there were no change in total margin loans, rising markets mean that this ratio will naturally decline. Instead, this ratio increased by nearly 200 basis points, within a backdrop of strong global markets, showing investor confidence and willingness to participate.

And the more our clients participate, the stronger we become. Our reported pretax margin was 72%, and adjusted for non-core items, was 67%. We know of no other broker who can claim margins close to this.

We see this investor confidence and strong activity across the globe, in all geographies. As we observed earlier this year, this activity appears to be led more by individual investors than by institutions. These customers tend to be “sticky” as they become familiar with our platform, and - especially internationally - we offer the broadest geographic product offering and lowest costs to those investors (and there are many), who wish to invest internationally. It is expensive to provide global market access, with compliance, legal, currency, and tax and reporting requirements different in each market. The costs to comply with all these requirements is high. As three quarters of our accounts are international, this competitive advantage continues to serve us well.

Over time, even as this period of Covid winds down, we see global interest in the markets - and the rise of the electronic connectedness of individuals to financial markets, institutions and each other - driving more people to participate, generating further interest in the financial markets among investors old and new.

We continue to see year-over-year growth in total accounts in the high 20s to low 30%. This is well above the high teens level year-over-year growth we experienced before the pandemic.

We continue to get better at giving our customers the power to navigate through our numerous, high quality features more efficiently. We continue to improve on giving them a customized work environment. We continue to listen to them to learn what products and tools they want added.

And now, to go over our record-but-for-the-first-quarter numbers. We ended the quarter with a record 1 million, 414 thousand accounts, a net increase of 61%. Once again, we saw account growth in all client segments and all geographic regions, with all areas showing over 50% growth, with modestly more rapid growth in Asia.

We saw growth in all five of the client types that we service. I will now go over our five client segments.

Individual customers, who made up 63% of our accounts, 37% of our client equity and 54% of our commissions, continued their growth this quarter, with 12-month account growth of 88%, and client equity growth of 85%, while commissions grew 48%.

In addition to the aforementioned factors, continued active interest in markets by investors worldwide, increases in market indices, and investor desire to improve on the zero interest rate environment alternatives, are some of the reasons behind this segment's strength. All geographic areas we serve saw triple-digit individuals account growth, with close to uniform growth rates across the Americas, Europe and Asia. This proves the importance of providing a reliable platform to a global audience, offering wide product choices and worldwide access, and shows that clients want the maximum opportunities to invest in the variety of ways they prefer.

We continued to see growth in the hedge fund customer segment. For the 12 months ended June 30th, we saw 2% hedge fund account growth, 54% customer equity growth, and 5% commission growth. We continue to benefit from our reputation for best price execution, low and transparent margin and securities financing rates, the quality of our platform and the strength of our balance sheet.

Hedge funds represent 1% of our accounts, 7% of our client equity, and 6% of our commissions.

Proprietary trading firms are 2% of our accounts, 9% of client equity, and 12% of commissions. For the quarter, this group grew by 34% in accounts for the 12-month period, 48% in client equity, and 21% in commissions. Prop trading firms are sensitive to the direction of volatility, and trade more as volatility increases. While not as high as the spike in the first quarter, continuing strong volatility led to more active trading strategies, while accounts and client equity grew due to more traders wanting to be on our platform and to capitalize on its reputation for seamlessness and efficient trade executions.

Financial advisors are 10% of our accounts, 16% of our customer equity, and 10% of our commissions. This group grew accounts by 20% for the 12-month period, customer equity by 52%, and commissions by 6%. Account and client equity growth show our increasing penetration of this segment. Commissions were up by less than account and equity growth as advisors typically tend to trade more conservatively.

While our independent advisor business is small relative to Fidelity or Schwab, those firms serve the Advisor and Individual segments only. Interactive Brokers also caters to hedge funds and prop-traders, more demanding groups as far as certain functionality is concerned.

We add tools and build out our infrastructure based on input from each client segment - and then make these improvements available to all of them. As a result, our platform has the richest set of tools and capabilities, and with this strategy we get better and grow faster in each of our customer segments than our peers.

Our final segment is Introducing Brokers. These represent 26% of our accounts, 32% of our client equity, and 17% of our commissions. I-broker segment account growth was 39% for the latest 12 months, while client equity more than doubled, growing 115%, and commissions by 131%. Interactive Brokers' platform provides the global trading and seamless back-office functionality critical for brokers who want to provide a global offering in order to capture clients, worldwide, who seek to invest and want to be able to access many markets in order to do so.

We continue to be excited about 2021 and beyond. I know you are all going to ask me about our Bitcoin introduction, and we expect it by the end of next month.

In other areas, we have provided content to Coursera, creating a certificate program for them called "A Practical Guide to Trading," which covers equities, forex, US bond, and derivatives trading. You should also take a look at IBKR Campus, which offers over 50 courses on investment products, trading tools, and portfolio and risk analysis. We want informed clients who will have the knowledge and tools to be with us for the long run.

Finally, we look forward to the Robinhood IPO, so that our various metrics can be compared to another firm besides Charles Schwab.

With that, I will turn the call over to our CFO, Paul Brody, who will go through the numbers for the quarter.

Paul Brody

Thank you, Nancy. Thanks, everyone, for joining the call. As usual, I'll start by reviewing our second quarter operating results and the non-core items. The main factors that drove those numbers, and then we'll open it up for questions.

Starting with the operating data, progressively stronger trading levels and record margin borrowing throughout the quarter drove robust operating metrics, albeit below the unusual spike in the first quarter, with a tailwind of rising world markets on positive vaccination and economic news and low interest rates.

Continued global interest in financial markets amid the search for higher yields led to industry trading volumes that are still above the activity levels of 2020 in most products. “Meme” stock trading volume came down from the extreme highs of the first quarter, which impacted industry volumes, mainly in stocks. Though over the course of the second quarter, trading by our active trader customer base rose from April lows.

Volatility, as measured by the average VIX, fell from the unusually high levels it reached early last year at the beginning of the first phase of the coronavirus pandemic, a time of great uncertainty amid rising case numbers worldwide. The average VIX fell from 35 in the 2nd quarter last year to 18 this quarter. And while it has come down recently, the VIX is still stronger than pre-pandemic levels, reflecting perhaps the unevenness of the reopening of economies worldwide.

Compared to the 2nd quarter of 2020, our quarterly total DARTs rose 32% to 2.3 million, second only to the unusually active first quarter.

Our customer trade volumes rose year-on-year in several product classes, led by increases of 34% and 160% in options and stock volumes, respectively. Stock volume was inflated by trading in low-priced stocks, though even after removing those from our calculation, our share volume still rose 36%. Again, these volumes are second only to those of the first quarter.

Futures volumes declined 19% year-on-year but remained modestly higher than the pre-pandemic levels. FX dollar volumes this quarter were lower, a trend we have seen since the explosion of volume in early 2020 and are now about even with pre-pandemic levels.

Total accounts reached a record 1 million, 414 thousand up 61% over the prior year, contributing to customer equity growing 79% from the second quarter of 2020 to \$363.5 billion.

Our overall average commission per cleared commissionable order declined 15% versus last year to \$2.38, though it rose 3% versus the first quarter. Factors impacting this decline include a

product mix that featured smaller average trade sizes in options and forex, and our continued success in capturing liquidity rebates, some or all of which are passed through to our clients. Capturing these rebates reduces the overall commission our clients pay (decreasing the average commission per DART), but also reduces the exchange fees we pay on the expense side, making their net impact neutral to our bottom line.

Moving to our Net Interest Margin table, our net interest margin rose from 0.99% to 1.15% year-over-year, driven by margin lending and securities lending. Quarter-over-quarter, our NIM declined from 1.26% to 1.15%, partially impacted by a decrease in the average effective US benchmark Fed funds rate from 8 to 7 basis points, with a further impact from most other rates worldwide remaining at or below zero.

Securities lending and margin loans were the largest contributors to our net interest income.

Securities lending was particularly strong this quarter, though down from a spike in the first quarter, when several stocks presented us opportunities to lend at high rates. Utilizing our in-house developed system, our team executed on opportunities to lend hard-to-borrow names that investors were looking to short. Net interest income from securities lending reached \$136 million this quarter, up 70% year-over-year.

Average margin loan balances rose 94% versus last year as investors continue to grow more comfortable taking on risk and leverage. Higher year-over-year balances led to a 97% increase in margin loan interest income to \$128 million.

In light of the flat yield curve, we kept the duration of our portfolio relatively short and recorded an immaterial mark-to-market loss on our holdings of U.S. Treasuries.

Outside the US, notably in Europe, where we have grown accounts at 55% and client equity by 70%, negative benchmark interest rates in some currencies have affected our ability to achieve acceptable yields on our segregated cash in this region. This has led to a couple of unusual factors:

Over the past few quarters, we have earned interest on our customer credit balances, as we pass through negative-rate costs on large balances in these currencies.

Our aggregate yield on segregated cash in this quarter was immaterial, but slightly negative. This was driven by increased customer cash balances in negative-rate currencies, although offset by the pass-through of costs I just mentioned.

Aggregate segregated cash balances fell 13% as clients used more cash to invest in the financial markets and more cash was used to fund margin lending in the US. This overall decline, along with inflows in negative rate currencies, led to a drop in our segregated cash net interest to minus \$2 million. Including the pass-through of \$8 million of the negative-rate interest to customers, the net interest earned on segregated cash balances was \$6 million for the quarter.

Note that, for accounting purposes, our FDIC sweep program, which was \$2.7 billion in the second quarter, removed funds that would otherwise be included in segregated cash balances on our balance sheet.

Now, for our estimate of the impact of the next 25-basis-point increase in rates.

When calculating the impact of rate changes, we understand that as the possibility of a future rate increase becomes more certain, this expectation is typically already reflected in the yields of the instruments in which we invest. Therefore, we attempt to isolate the impact 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.

With that assumption, we would expect the next 25 basis point, unanticipated rise in rates to produce an additional \$99 million in net interest income over the next 4 quarters, and \$102 million as the yearly run rate, based on our current balance sheet.

Our net interest income is highly sensitive to small rate increases, due to the impact of low benchmark rates on the spread between what we earn on our segregated cash and what we pay to our customers. As US rates fell below 50 basis points, our spread compressed as we earn less on our segregated cash. However, the converse is also true, that as rates move back up toward 50 basis points, this spread rises.

The \$102 million run rate includes the reinvestment of all our present holdings at the new, assumed, rate, but does not take into account any change in how we manage our segregated cash.

A 25-basis point, unanticipated fall in rates would produce a decline in net interest income of \$32 million over the next 4 quarters, and \$32 million as the yearly run rate.

As a reminder, about a quarter of our customer credit balances are not in US dollars, and so changes in rates that occur in the US do not apply to all of our balances.

Turning to the Income Statement, we define non-core items as those not part of our fundamental operating results. Non-core adjusting items vs the year-ago quarter are as follows:

Our currency diversification strategy swung from a gain of \$16 million a year ago to a loss of \$9 million this quarter, for a comparative decrease in income of \$25 million.

Investment gains and losses rose from a gain of \$13 million to a gain of \$113 million this quarter, for a comparative increase of \$100 million.

Mark-to-market on US government securities went from a \$13 million loss to about zero this quarter, a comparative increase of \$13 million

The net effect of these items increased pretax income by \$104 million this quarter, a positive shift of \$88 million over last year's quarter.

Net revenues were a reported \$754 million for the quarter, up 40% versus last year's second quarter. Excluding non-core items, net revenues were up 24% to \$650 million.

Commission revenue rose 11% on higher volumes year-on-year, particularly in stocks and options.

Net interest income rose 40% to \$274 million. Despite continued low benchmark interest rates, thanks to growth in our balance sheet, higher margin loan balances and our successful securities lending efforts, our growth in net interest was robust.

Other fees and services revenues, which include market data, exposure, account activity, FDIC bank sweep program and IPO facilitation fees -- as well as order flow income from options exchange-mandated programs -- rose 38% to \$55 million.

The top three contributors were Risk Exposure fees, which were up \$6 million; Market Data fees, which were up \$5 million; and liquidity payments from options exchanges, which rose \$2 million.

Other income, which includes gains and losses on our investments and currency diversification strategy, as well as principal transactions, showed a gain of \$118 million, up from a gain of \$27 million in last year's quarter. Ex non-core items, Other income increased 27% to \$14 million.

Non-interest expenses were \$213 million for the quarter, down 33% from last year's quarter.

Larger exchange liquidity rebates, lower futures volume, and a \$6 million clearing fee rebate, drove a 29% reduction in Execution, Clearing and Distribution fees to \$54 million, despite the higher stock and options volume. As mentioned, a portion of exchange liquidity rebates are passed through to our clients and are reflected in reduced commissions.

Fixed expenses were \$158 million, down 34%, driven by a 73% decrease in G&A expenses. Last year's G&A included \$103 million in costs associated with the WTI oil futures event.

At quarter-end, our total headcount stood at 2,429, a 34% increase over last year. We continue to hire aggressively in Client Services to support the influx of new accounts, as well as in Software Development. Note, too, that Brexit required that we open offices in Europe, which are now fully operational in Hungary as well as in Ireland.

Customer bad debt expense was \$1 million, well contained for a highly active trading period.

Reported pretax income more than doubled from last year's quarter, to \$541 million, for a 72% pretax margin. Excluding non-core items, pretax income rose 41% to \$437 million, a 67% pretax margin.

Diluted EPS were \$1.00 for the quarter, versus \$0.40 for the same period in 2020. Ex-non-core items, diluted EPS were \$0.82, versus \$0.57 as adjusted last year.

To help investors better understand our earnings, taxes, and the split between the public shareholders and the noncontrolling interests, the 2nd quarter numbers are as follows:

Starting with our pretax income of \$541 million, we remove \$1 million of income at the holding company, then we deduct \$12 million for income taxes paid by our operating companies, which are mostly foreign taxes.

This leaves \$528 million, of which 78.1%, or that \$414 million reported on our income statement, is attributable to noncontrolling interests.

The remaining 21.9%, or \$114 million, is available for the public company shareholders. As this is a non-GAAP measure, it is not reported on our income statement.

After we expense remaining taxes owed by the public company of \$23 million on that \$114 million, the net income available for common stockholders is the \$92 million you see reported on our income statement.

Note that the public company's tax is proportionately higher than last year, primarily because IBG, Inc.'s ownership rose from 18.6% to 21.9%.

Our total income tax expense of \$35 million consists of this \$23 million plus the \$12 million of taxes paid by the operating companies.

Returning to the balance sheet, with \$9.9 billion in consolidated equity at June 30, 2021, we are well-capitalized from a regulatory standpoint. We deploy our strong capital base toward opportunities to grow our business and investment opportunities worldwide, as well as to emphasize the strength and depth of our balance sheet to current and prospective clients and partners.

Our capital is deployed across 14 registered broker-dealer type entities around the world, supporting regulatory capital requirements, liquidity needs, margin lending and other financing opportunities in our growing brokerage business.

We continue to carry no long-term debt.

Now I will turn the call back over to the moderator, and we will take questions.

Question and Answer Session

Operator

(Operator Instructions)

Our first question comes from Rich Repetto from Piper Sandler.

Rich Repetto

Good evening Thomas and Paul, I guess my first question is on interest and interest sensitivity. And I know, Paul, you gave us the sensitivity to the 25 basis points move. But I was just trying to see if -- when and if the Fed gets to 50 basis points or above, I know you share that completely with customers, but you don't share it if they have less than \$100,000 or pro rata. And they need \$10,000 in cash.

Is there any way we can get the -- I think you did it in the past about how much cash is, what do you call, rate insensitive that would fall -- that wouldn't be -- get -- share that interest above the Fed rate of 50 basis points? And then the other part would be just what could you do on treasuries in your reinvestment sort of policy? How could the NIM expand if potentially treasuries were to widen out?

Paul Brody

I can take the first one certainly. Yes, our fully interest rate-sensitive credits amount to about 14% of the total credits, about \$11.2 billion at the end of the quarter. So that can give you an idea of the portion on which we can fully capture any other rate increases.

And to the second, I would turn that one over to Thomas with regard to investment policy on -- depending on the yield curve, I guess, is really your question, yes?

Thomas Peterffy

So, we're going to remain invested for the short term because I wouldn't dare to go out very far on the yield curve, especially with these rising inflation prospects. But as to your first question, that first half percent is just completely ours, right, you understand that. So, when rates go to half percent that is completely ours. From thereon, we share. But our clients with less than \$100,000, they have only about a sum total of \$10 billion.

Rich Repetto

Understood. Yes. And the -- if we got -- I'm just trying to understand, if we looked at past rates, last rate cycle, your net interest -- your NIM expanded dramatically. And if -- I'm not saying today, but if the yield curve changed dramatically in a rising rate scenario, wouldn't we expect some NIM expansion because you would go farther out the curve on treasuries rather than staying on the short end right now?

Thomas Peterffy

It's not because we went further out, I mean we went out maybe a year. But it's mostly because the first half percent is -- it's a huge amount of money on \$85 billion of free cash we're sitting on, customer cash.

Rich Repetto

Got it. Okay. My last question would be, Thomas, you talked about regulatory issues. Any -- have your views on payment for order flow or what -- any changes to market structure that you could -- that you're at least bracing for or think could possibly change over the next 12 to 18 months?

Thomas Peterffy

So, I cannot foresee any change because basically, this has been the business of Wall Street for 200 years now, namely customer order comes in and the firm trades against it, right?

Now all that is happening with Schwab and Robinhood on one side and Citadel and Virtu on the other is that there are 2 different companies. But -- so if they prohibited order flow, what would happen is a Schwab would buy Virtu and Citadel would buy Robinhood, right? And the same thing would just continue, right? So, I don't think that the annual -- the payment for order flow can be prohibited. It just unbundles the traditional Wall Street model.

Rich Repetto

Got it. Super helpful Thomas, thank you.

Operator

Our next question comes from Daniel Fannon from Jefferies.

Daniel Fannon

So just a follow-up on some of the account metrics and the growth numbers that you guys cited in regions, continues to be very strong. I believe last quarter, you talked about China and Hong Kong being slightly weaker. But -- so just curious if there's anything underneath at a country level or other areas where things are potentially not as strong as otherwise would be expected.

Thomas Peterffy

China continues to be weaker, even weaker than it was in the previous quarter. And I mean it went down to practically nothing. And Hong Kong is just -- it is certainly not as strong as it was a year ago, but it sort of continues. Otherwise, there is Europe, especially Eastern Europe, the Middle East, South America. These are especially strong.

Daniel Fannon

And the profile of the customer being added today, any kind of material difference or change than what you've seen historically?

Thomas Peterffy

Well, in the mix, I mean maybe there are some smaller customers, but we also get larger customers -- due to our institutional efforts such as with prop trading firms and the investment adviser. So overall, there isn't a substantial difference in the mix of the size of customers.

Daniel Fannon

Thank you.

Operator

(Operator Instructions)

Our next question comes from Kyle Voigt from KBW.

Kyle Voigt

So, Thomas, if you look at May and June metrics, specifically, I think you were running around 23% or 24% annualized account growth rate. In the past, you had said you thought that account growth will kind of normalize towards the -- kind of maybe high 20% or around 30% range, but seems like the trajectory of the growth over the past couple of months is trending below that.

So I guess, any updated thoughts on where you think that account growth will stabilize at this kind of work-from-home environment and the operating environment normalizes?

Thomas Peterffy

My best guess is 30%. I'm aware that May was lower, June was also lower, not -- although not 23%, but I think more like 27%. But my best guess going forward is 30%.

Kyle Voigt

Okay. Second question is on the elimination of the monthly inactivity fees. I think we probably had asked about this for a long time, a lot of the analyst community. Just wondering, can you help us understand why you thought now was the right time to eliminate these fees. Do you think that could impact your account growth rate? And does this move kind of suggest a shift in strategy in terms of wanting to target maybe smaller, less active individual traders, which is a little bit different than where you've historically targeted?

Thomas Peterffy

So, it is not aimed at the traders, new traders, it's aimed at existing folks that decide to hang up their hats for a while and not trade and -- so what they've been doing is they close their accounts and then -- in order to save the inactivity fee. And so, they come back a year or 2 later, but they won't necessarily come back to us. They go to some other broker. So that's what we want to prevent.

So, we want to -- we would like to hold on to the people who have had accounts with us. We want them to continue to have accounts with us even if they become inactive for a while. And so that their account is open, even if they just leave a few dollars in it and then when they are ready to invest again, they will do it with us.

Kyle Voigt

Understood. And then just maybe my final question on securities lending. Just down from a record first quarter, but still grew 70% year-on-year and the revenues there. I guess when we're thinking about the current sec lending environment, would you still think of this as an elevated revenue level? Or I guess I'm asking if this is -- should be a good run rate going forward because, as I said, 70% year-on-year growth in revenues, but your average client equity was also up over 70% year-over-year and account growth was also up very strongly. But just curious on your thoughts on the current kind of environment for sec lending.

Thomas Peterffy

I didn't understand the first word, security funding you said?

Kyle Voigt

Securities lending.

Thomas Peterffy

Lending. Ok.

Paul Brody

I can comment, Thomas. Sure. I mean as we always say, it's driven both by as the customer base grows and balances grow, it is driven by higher short balances and greater inventory to lend, but it is most particularly driven by stocks that get hot in the marketplace. And for some period of time, sometimes very short, sometimes an extended period of time, we can lend them out at very high rates.

And so, we had some experience with that this past quarter, we had more in the first quarter. These stocks just come and go as you can read about them in the news. We are just able to take advantage of them, both because our customers borrow money against them, but also because we have a fully paid lending program, we call it Stock Yield Enhancement Program. And so, we've seen growth there, and it provides us opportunities to increase revenues because we're now lending out more of our customers' stock in that program.

Thomas Peterffy

I would add to that, that our especially low margin rates brings in a lot of clients who want to carry positions on margin. And as you know, those positions are available to us to lend. So, there is a benefit to charging a very low margin rate.

Kyle Voigt

Thank you.

Operator

Our next question comes from Chris Allen from Compass Point.

Chris Allen

Maybe just a follow up on Kyle's question on the monthly activity fees. Any estimate in terms of how many accounts have been closed to save on the activity fees maybe over the last year or 2?

Thomas Peterffy

I would guess about 25,000 accounts a year, but that's a guess.

Chris Allen

Got it. And then I think it was yesterday you announced a new pricing over in Europe, standard pricing, I guess, as started in Western Europe. Maybe just some color just in terms of -- what was the catalyst to introduce new pricing scheme? Any estimate in terms of financial impact?

Thomas Peterffy

So, there is no financial impact to speak of. But our competitors were advertising these similar simple rates, our issue was that our rates are not so simple. And the -- so we now can say that it's 3 Euros or 3 Pounds or 3 whatever your currency is. And so, it competes well with other folks in the marketplace.

Chris Allen

Understood, thanks, that is it for me.

Operator

We have a follow-up question from Rich Repetto from Piper Sandler.

Rich Repetto

Yes, want to get 1 more in, Thomas, a quick one, I think. Paul, could you define fully paid securities lending versus just, I guess, margin loan lending? And then also, do you think that just

because we're trading in the U.S. markets, almost 50% higher levels at 10 billion shares a day versus 7 billion in 2019. Does that make it more likely that stocks are -- that you have these scarce stocks just because there's more trading overall? Like in other words, more evidence that the elevated securities lending could be -- could stay elevated going forward?

Paul Brody

Well, certainly, the greater inventory we have, the more likely it is that we have more shares in the high-rate stocks to lend. And this feeds on itself, as Thomas said, as our low rates attract more margin lending that frees up those -- that body of stocks for us to lend. On that, we earn 100% of the revenue because they are margin stock. And on the fully paid stocks, we share that revenue generally 50-50 with our customers.

Fully paid means, it's either fully paid even in a cash account or in a margin account where there may be margin borrowing by the customer, that's not the full amount of margin borrowing that the customer can put on, which leads some of the stocks to be not collateralizing margin loans, and therefore, they are fully paid, and we can still lend them out. And in fact, the customer will earn something on those shares.

Thomas Peterffy

So, we have an outright agreement with some of our customers in which we agree, they agree that we can lend out their shares that are fully paid for, and we agree to hold them on as far as the credit risk. So, we guarantee them against credit risk and we give them half the proceeds.

Rich Repetto

Understood, thank you. That is all I have.

Operator

I am showing no further questions. I will now turn the call back to Nancy Stuebe, Director of Investor Relations, for closing remarks.

Nancy Stuebe

Thank you, everyone, for participating today. As a reminder, this call will be available for replay on our website, and we'll be putting up a clean version of our transcript on the site tomorrow. Thank you again, and we'll talk to you next quarter end.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.