

Interactive Brokers Group's (IBKR)

Q3 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 Harris, *Wells Fargo Securities*

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Interactive Brokers Group Third Quarter Financial Results. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker, Nancy Stuebe, Director of Investor Relations. Please go ahead, Ma'am.

Nancy Stuebe

Thank you. Good afternoon, everyone. Thank you for joining us to review our 2019 third quarter performance. Thomas is on the call but has asked me to present his comments on the business. He will participate in 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.

The third quarter of 2019 was a strong one for Interactive Brokers. Commissions were \$187 million, the third-highest in our history, and net interest income reached a record \$291 million on a net interest margin of 1.77%, also a record. At our Electronic Broker, total accounts grew by 16% and client equity topped \$156 billion, leading to brokerage revenues exceeding half a billion dollars for the first time and generating a 65% pretax profit margin. This occurred despite modest volatility with the average VIX volatility index rising to 15.9, versus a low volatility quarter last year. This increase, combined with having more clients on our platform, helped lead us to a 13% increase in total DARTs. As we have stated for some time, we focus on growing our customer base in all client segments and geographies, as this generates more activity, both from our new customers coming onto our platform, and especially in periods where we see volatility increasing from all customers trading more during these periods.

The numbers are impressive but they are now in the past. I will share some of what we are working on for the quarters ahead.

Since the inception of our Electronic Brokerage business, we have prided ourselves in our commitment to offering the best platform for our customers. To us, this meant best execution by routing orders directly to a venue and not selling customer order flow. It meant routing our customers' orders to whichever venue is likely to offer the best price for that specific security at that particular time. "Best platform" also meant paying a transparent high interest rate on idle customer cash and charging a transparent low rate on margin loans.

More recently, we found that not everyone shared our definition of what is "best". To some investors, "best" meant paying 0 commissions first and foremost. If this is what some of our customers wanted, we decided to oblige.

We therefore introduced IBKR Lite on September 26th, and rebranded our existing offering as IBKR Pro. On IBKR Lite, investors from the U.S. will pay 0 commissions on U.S. stocks and ETFs and, like our customers always have, will pay no base cost on options trades.

As disclosed to our customers, Lite orders will be routed to liquidity providers in return for payment for order flow. IBKR Lite clients will also receive interest on their idle cash (higher than at many of our competitors, though less from that of our IBKR Pro platform), and pay some of the lowest rates in the industry on their margin borrowing (though higher than that of our Pro platform). There will be no account minimums, inactivity fees or market data fees. A wide variety of other products from our Stock Yield Enhancement Program, to international securities, bonds and futures, will be available at our regular low rates.

IBKR Pro represents our award-winning platform, with third-party confirmed best price execution, lower-tiered rates on margin loans and commissions, access to markets and products around the globe, and access to all of our trading algorithms, analytics and technology.

Because we are so automated and keep our costs low, we are able to offer our Lite platform with low margin lending rates and positive cash interest rates (it appears some of our 0-commission competitors think 0 should also apply to the interest paid on cash in their customers' brokerage accounts).

IBKR Lite's rates are higher than IBKR Pro's for margin loans and lower for interest paid on customer cash, and we receive payments for their order flow. So the IBKR Lite platform is revenue-neutral to us. New customers who use the Lite model will bring us a new revenue stream, so we have positioned ourselves to capture new revenue without giving up existing revenue.

In addition to IBKR Lite, we undertook a number of initiatives and expanded our range of offerings this quarter. We constantly seek to improve our platform and to bring it to more potential clients.

This quarter saw the introduction of new portals for introducing broker and EmployeeTrack clients, and significant new improvement for the RIA platform. All these features not only offer robust functionality but have also benefited from major improvements in navigation, workflow and design.

Our bond desk added a direct connection to MarketAxess, an alternative trading system that 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 in the near future.

On June 30th, 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. Winnings can be converted to up to \$1,000 and free commissions once a participant has opened an Interactive Brokers account. Once again, our goal here is to broaden our possible audience by attracting customers more familiar with the probabilities of spectator sports than with financial markets. Although it's too soon to talk about impacts, we are seeing conversions from the simulated sports betting accounts to actual funded IBKR accounts, which was our objective with this promotion.

We also recently rolled out access to the Russian stock market to our clients worldwide.

And finally, as of last Monday, our shares are listed back on NASDAQ under the same ticker, IBKR. We believe the NASDAQ listing is best for our shareholders, and we look forward to working with them.

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 commissions outside the Americas as some markets fell, including the Nikkei, Hang Seng and FTSE 100 indices.

As of September 30, individual customers made up 50% of all accounts, up 17% over the prior year; 35% of customer equity, up 9%; and latest 12 months' commissions were 51% of total, up 2% from last year. Customer equity growth was stronger in Europe and Asia this quarter, while commissions were up in the U.S. but weaker outside it.

Hedge funds were 1% of our accounts, up 3% for the 12-month period; 9% of our client equity, up 3%; and 9% of our commissions, down 5% on weakness in Asian markets. Our price execution, low overall costs and high cash interest continue to attract institutions both large and small.

Proprietary trading accounts were 2% of accounts, up 11%; 10% of client equity, up 11%; and 15% of commissions, down 5%; again, mainly due to weakness in international markets, particularly Asia.

Registered investment advisers represented 16% of our customer accounts, up 9% for the latest 12 months; 23% of our customer equity, up 4%; and 16% of our commissions, down 2%. Again, overseas markets declined most in commissions.

Finally, introducing brokers are 32% of our customer accounts, up 19% over the last 12 months; 23% of our customer equity, up 20%; and 9% of our commission income, up 6%. Introducing brokers outsource their back office to us, reducing their operational, regulatory and compliance burdens. These services, in addition to the growing population of new investors in developing countries, many of whom want to trade internationally, help drive the expansion of our customer base.

We look forward to a resolution of trade issues in Asia, though we have not yet seen much change in the ability of Mainland China accounts to fund as they had in the past. However, we are well-diversified in terms of the countries and companies we provide our I-Broker services to, and are seeing growth worldwide in every region where we operate.

And one last note about Interactive Brokers' future. The last day of September was my 75th

birthday. As I promised earlier this year, October 1st marked the day when Milan Galik, our President, became our CEO, while I will remain Chairman.

I do not plan on sitting on a beach - I find that much too boring. While I will be involved in strategy as much as I have been, Milan will be the one “calling the shots”.

Though I am not going anywhere, this is the beginning of a new chapter in what will prove to be the long, successful story of Interactive Brokers.

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

Paul Brody

Thank you, Nancy. Welcome, everyone, to the call. Thank you for dialing in.

I'm going to review our results as usual, put our numbers into context within the current environment, and then my comments will follow the format of the earnings release, and then we'll take some questions.

Starting with operating metrics. They reflected fairly active trading in a moderate volatility environment. Volatility, as measured by the average VIX, rose to 15.9 this quarter, a 23% increase from a low 12.9 in the year ago quarter. Once again, the average masked some inter-quarter variability, as the VIX fell in July, recovered well in August and declined again in September. This erratic volatility contributed to a mixed year-over-year volume results, with increases in cleared customer options and futures contract volumes, and decreases in stock shares volumes. As usual, those were led by low-priced stocks in Hong Kong. Foreign exchange dollar volume was down as well.

Total accounts reached 666,000, up 16%, which contributed to customer equity growth of 10% to \$156.6 billion at quarter end. With the continued tailwind from new account growth, our quarterly total DARTs were 859,000, up 13% over last year.

In this quarter, our overall average cleared commission per DART fell 2% versus last year, to \$3.69, 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 widened to 1.77% from 1.68% in the third quarter of 2018.

The Federal Reserve reduced rates by 25 basis points twice this past quarter, in July and September, after raising them 4 times over the course of 2018. As these rates were not in effect for the entire period, we should see the full effect of them over the coming quarters.

On a year-over-year basis, the average Fed funds rate was somewhat higher this quarter, which generally leads to higher net interest income. But because our customer interest rates are pegged to market benchmarks, the increase in our net interest income from benchmark-related components is primarily due to rise in customer cash balances. The same is true on a sequential basis: despite the decline in average Fed funds rate, our net interest income rose along with customer credit balances. We believe our continued success in asset gathering can lead to larger contributions from interest-sensitive assets going forward.

As the yield curve remains flat to inverted, we have maintained a short duration in our fixed-income portfolio, and we recorded a modest mark-to-market loss this quarter of \$2 million on our holdings of U.S. Treasuries. As a reminder, we plan to hold these securities to maturity, and as broker's GAAP rules require us, unlike banks, to mark them to market in our financial reporting.

Our FDIC Insured Bank Deposit Sweep Program continues to grow, reaching \$2.2 billion.

Segregated cash management and securities lending were the most significant contributors to our net interest margin. Driven by a higher customer cash balances and higher average Fed funds rate versus last year, our segregated cash interest income grew 68% 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 investments under 40 days, there is some lag time in reinvesting at new rates. Typically, our effective interest yield would not follow a change in the Fed funds 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 rose 43% from the year ago quarter, as we satisfied the high demand for several hard-to-borrow names that investors sold short.

Average margin loan balances this quarter declined from the stronger borrowing demand we observed in the market environment of last year's third quarter. Offset somewhat by higher year-on-year benchmark Fed funds rates, margin interest income declined 4%.

Now for our estimate of the impact of the next 25 basis points change in rates.

Market expectations of rate changes are typically built into the yields of the instruments in which we invest. Therefore, in our calculation, we attempt to isolate the impact of 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 or decrease in rates to result in \$21 million higher or lower, respectively, net interest income as the yearly run rate.

Turning to the segments. Electronic Brokerage turned in a record performance in a modest volatility environment. Net revenues were \$506 million for the quarter, up 14% over last year. Pretax income was \$331 million, up 13%, and excluding marks on our Treasury investment portfolio, pretax income was \$508 million, for a pretax margin of 66%.

Execution and clearing expenses were \$64 million, up 19%. As a note, last year we received a \$3 million fee rebate from the OCC from a program they have since discontinued. Without it, execution and clearing would have been up 13%, in line with the increase in commission revenue.

Fixed expenses in brokerage were \$113 million, up 14%, driven by increased legal and compliance expenses. Higher compensation and benefits, in line with our hiring to support the growing brokerage business, were a secondary factor.

Customer bad debt expense was a negative \$2 million as we are able to recover some previous losses.

Market Making today consists of the customer facilitation business we will retain, as well as 3 markets outside the U.S, which we continue to evaluate. Net revenues are \$17 million, of which \$7 million were trading gains and the bulk of the remainder was net interest income. Market Making pretax income was \$8 million.

The Corporate segment reflects the results of our strategic investments and the effects of our currency diversification strategy. For the third quarter, we recorded a mark-to-market loss from our investment in Tiger Brokers of \$13 million. Life to date on this investment, we have recognized a net gain of \$16 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 strengthened against all other major currencies this quarter, we incurred a net loss from our strategy of about \$74 million, of which \$47 million is included in earnings and \$27 million is reported as Other Comprehensive Income. We estimate the total decrease in comprehensive earnings per share from currency effects to be \$0.15, with \$0.09 reported in other income and \$0.06 reported as OCI.

Turning to the income statement, net revenues were \$466 million, up 6% from a year ago. Adjusted for nonoperating items, net revenues were \$525 million, up 14% over last year.

Nonoperating items include a \$47 million loss on our currency strategy, a \$10 million loss on marking our investments, including Tiger Brokers, to market, and a \$2 million loss on our treasury marks.

Commission revenue rose 12% on significantly higher volumes in futures and options, somewhat offset by lower volumes in stocks, with smaller trade sizes in most product categories. As we noted earlier, the small decrease in our overall average cleared commission per DART, \$3.69, reflected smaller trade sizes across most product segments. Of our \$291 million in net interest income, brokerage produced \$283 million; Market Making \$9 million; and Corporate, the remainder.

Other income, which includes our GLOBAL currency strategy, marks-to-market on our Treasury and Tiger Brokers investments and other fees and income we receive, was a loss of \$19 million. The GLOBAL, the investment in Tiger Brokers and Treasury marks returned losses while other areas of other income, primarily fees, showed offsetting revenues that were slightly lower than the year ago quarter.

Noninterest expenses were \$185 million for the quarter, up 13% from last year. The increase was spread across several categories; including a 19% increase in execution and clearing costs (or up 13% when excluding that \$3 million clearing fee rebate we received last year); and higher employee compensation and G&A costs in support of our growing brokerage business.

At quarter end, our total headcount stood at 1,581, a 15% increase over the year ago total. We have been hiring most aggressively in the areas of Compliance, Client Services and Systems Development.

The largest fixed component of our noninterest expenses, employee compensation and benefits, accounts for 14% of net revenues. In general, these expenses reflect the opportunities we see to expand our business or automate it further. We do not have a fixed percentage increase that we seek to achieve.

Pretax income of \$281 million was up 2%, and represented a 60% pretax margin. And adjusted for the nonoperating items I mentioned previously, pretax income was \$340 million, up 14%, and represented a 65% pretax margin.

Diluted earnings per share were \$0.45 for the quarter versus \$0.51 for the same period in 2018.

Comprehensive diluted earnings per share, which includes all currency effects, were \$0.39 for the quarter versus \$0.50 last year. And without the impact from nonoperating items, diluted earnings per share would have been \$0.57, versus \$0.56 last year on the same basis.

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

Starting with reported income before income taxes of \$281 million, we deduct \$4 million for income taxes paid by our operating companies, which are mostly foreign taxes. This leaves \$277 million, of which 82%, or that \$225 million reported on our income statement, is attributable to noncontrolling interests. The remaining 18% or \$52 million is available for the public company shareholders, but as this is a non-GAAP measure, it's not reported on our income statement.

After we deduct taxes of \$16 million owed on this \$52 million, net income available for common stockholders is the \$36 million you see reported on our income statement. The income tax expense you see on our income statement of \$20 million consists of the \$16 million paid by the public company, plus the \$4 million paid by the operating companies.

Turning to the balance sheet, it remains highly liquid with low leverage. We are extremely well-capitalized and have ample capital to support our growth. We hold excess capital in order to take advantage of opportunities, as well as to emphasize the strength and depth of our balance sheet, and we continue to carry no long-term debt.

At September 30, margin debits were \$26 billion, a decrease of 16% from the more risk-on environment we saw last year. And as we've 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 a growing worldwide margin lending business.

Our consolidated equity capital at September 30, 2019, was \$7.7 billion. \$6.5 billion was held in brokerage, \$0.9 billion in Market Making and customer facilitation activities, and the remainder in Corporate.

Now I'll turn the call back over to moderator and we can take some questions.

Question-and-Answer Session

Operator

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

Rich Repetto

I guess my first question is on the new offering, IBKR Lite, and I'm just trying to see some of the early results, if you could give us any color or any sort of information on how it's going - IBKR Lite so far?

Thomas Peterffy

So IBKR Lite came online yesterday morning.

Rich Repetto

I thought it was October 1, I'm sorry.

Thomas Peterffy

So there is not an awful lot I can tell you about it. Previous to yesterday, we had a few test accounts from customers that had expressed their interest to try IBKR Lite. And so yesterday -- in the course of yesterday, we had actually 35 new IBKR Lite accounts. So that's -- basically, there is not much I can tell you about it. The average assets in an account are \$52,000. And on the average, they hold \$24,000 of that in cash.

Rich Repetto

Got it, okay. My apologies, I thought it started at the beginning of the month, but...

Thomas Peterffy

That is OK, Rich.

Rich Repetto

All right. Next question, Thomas. So you've seen a number of the other -- all the other online brokers go to 0. And I'm just trying to see, do you think that, that will have any impact on IBKR Pro? Or do you see any -- you have the Lite offering, and I guess everybody is speculating the difference between IBKR Pro and 0 is that -- your bargain has been reduced, I guess, is what they are saying.

Thomas Peterffy

Well, that is true. We did not expect such a swift reaction in the sense that -- we thought that we come out with IBKR Lite as an additional offering, and that will go on for a while, and we will attract some customers and then eventually, other people will start reducing and maybe will go to 0. So this very swift reaction was a surprise to us. We learned from it. We understand that we are usually -- we never gain anything from announcing and disclosing and you are always better off if we do not confirm and do not deny. So that is what we're going to do in the future in similar circumstances. So now -- what are you actually asking me? Can you repeat it?

Rich Repetto

Yes. I was just saying, do you contemplate any changes to IBKR Pro going forward given what the industry has done?

Thomas Peterffy

No. No, we are not contemplating any changes to Pro. I think that most of our Pro customers are sophisticated. Some who are not may go over to Lite and that is completely okay with us. Pro customers understand that they benefit from our platform. And the 1% difference in -- favorable difference to them on interest on cash balances and lower interest on margin borrowings, and some of these very sophisticated customers also understand that their orders will not be welcomed by the high-frequency traders. So they don't have much of a choice anyway.

Rich Repetto

Understood. And very last question, the Smart Order Router that IBKR Pro clients use, you say it's revenue-neutral and it's easy to see the payment for order flow could offset the -- whatever, it

was the \$2.22 equity commission, we think it was in August or so. But can you just maybe give us your view of the value of the Smart Order Router? Is it -- and yes, the value that the client gets from using the Smart Order Router?

Thomas Peterffy

Well, I think that we will be able to provide exact numbers in about a couple of months or maybe 3 months. As you know, we have these monthly stats that we regularly disclose on the first day of each month, where we calculate the all-in execution cost for all of our customers. And as of now we have bifurcated into 2 segments, we will obviously calculate that difference. We calculate those numbers for both segments and that difference will be apparent. And -- so rather than speculate about that why don't I just leave it at that.

Operator

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

Will Nance

So maybe to follow-up on the IBKR Lite platform. Are you seeing any demand for some of the foreign markets that you guys operate in for a product like that? And I guess assuming the rollout goes smoothly, is that something that you would consider in other markets?

Thomas Peterffy

So first of all, you don't have the same high-frequency trading activity in foreign markets that you have in the U.S. So there is nobody clamoring to buy our order flow in foreign markets. So that by itself is a limitation. On the other hand, Canada is one place where we would consider going to 0, but otherwise, we don't have anybody that we would compete with anywhere, right? So no. The answer is no.

Will Nance

Got it. That makes sense. And I guess, of your commission revenue, do you have a sense for how much is coming from kind of U.S.-based accounts versus what's coming from abroad?

Thomas Peterffy

I have some sense, but I don't know that by product. And don't forget, we basically derive more commissions from options than from stocks, and futures commissions are also a significant part and so is ForEx. So we haven't broken that out.

Will Nance

Got it. No worries. And then maybe one for Paul. I guess the expenses came in a little better this quarter. Any commentary on the run rate of expense growth that you're looking at as you kind of look out over the next year?

Paul Brody

Well, the direct expenses always expand and contract with the volume, so those were in line, as I mentioned, except \$3 million rebate from last year. The employee comp and benefits, you'll see it was down somewhat, but of course, you have to compare as we disclosed last quarter, that is when our Stock Incentive Plan shares vest and grant, so there's an additional expense in the second quarter. So as a run rate, we're probably more in line this quarter. And not much special on the others other than generally speaking, compliance is an area that simply takes up more and more expense, both in comp and benefits as we increase staff and our resources there and also in responding to regulators and so forth.

Operator

And our next question comes from Kyle Voigt with KBW.

Kyle Voigt

I guess on the IBKR Lite offering, when you announced the offering, obviously, it was very differentiated because of that weaker commission rate. But others in the industry have, obviously, moved to cut rates to 0 since then. Just wondering if there's anything that you're willing to do or give clients from a promotional standpoint to help differentiate that IBKR Lite offering versus all of the other 0-commission offerings that now exist in the industry?

Thomas Peterffy

Well, our platform is still differentiated in the sense that the software is more suitable for more sophisticated clients. And although the Lite is fairly simplified, but nevertheless our more sophisticated clients would have reams of benefits from our platform vis-à-vis the competitors'. So we have -- obviously, we have the ability to trade many, many different markets around the world, and also trade futures along with stocks and options. You can also trade -- we also have online bond trading capability and that's basically it. Yes. And of course, I mean people who, for example, want to -- are considering going short, it's very unique that we display our short inventory and the rate at which you can borrow or lend stock to us. I don't think anybody else does that, right? Although again, the typical Lite customer would probably not be interested in that, although the surprise is that of the 35 customers that we took on yesterday, some of them have short positions.

Kyle Voigt

Has there been an increase in inbound client call volume regarding -- or since the move to 0 commissions by the industry? I'm just wondering if you've noticed any change in kind of client -- your client behaviors since the last round of commission cuts has gone through?

Thomas Peterffy

I must confess to you that I don't keep up to date on client calls. I'm sorry.

Kyle Voigt

Okay. And then just on the increase in the net interest income related to the high demand for those hard- to-borrow names. Was there something specific that happened in the quarter that you can note? It was just a very large increase sequentially there.

Paul Brody

Yes. Well, as we generally say the earnings coming from securities lending, in general, are driven by not only the breadth of our coverage, but very much by the specials that show up in any given time, and how hard-to-borrow are they? How much is the market willing to pay in terms of interest rate? And how long does that last for? So there were certainly a couple of drivers recently, probably names that you've heard in the news, and we position ourselves to take

advantage of that because we've developed all of our securities lending and inventory management systems in-house. And so they're quite specialized at doing an efficient job that captures as much of that lending as possible.

Kyle Voigt

Okay. And just lastly for me, Thomas, just given the CEO transition, could you just go into, I guess, like what has changed in terms of the day-to-day or strategic direction of the company in terms of decision-making in terms of decision-making, like what Milan will be doing? How involved you'll be from a strategy standpoint? And also if we could expect to hear Milan on these -- and join you on these calls on a go-forward basis, if that's in the cards.

Thomas Peterffy

Well, somebody has to do the work and Milan does the work terrifically well. So I would hate to get him into this stuff because it's -- I mean I understand that you guys would like it but you can all come to our Annual Shareholder Meeting, and Milan is always there and you're free to talk to him and ask him whatever you want. Other than that, I'm working very hard on restraining myself from interrupting him every hour on the hour about various questions. And I hope that I'll be successful and I will interfere less and less as time goes by. I'm trying.

Operator

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

Chris Harris

Great. So obviously there's been a lot of changes in offerings across the industry on commissions and everything else. I'm sure you guys are keeping track of that. One thing that's interesting to us is that if you look at Fidelity's revised offering, they're offering 0 commissions and they do not accept payment for order flow. So I think they're the only broker that has that combination. So I guess my question is from an execution perspective, is what Fidelity is offering superior to IB Lite and other competitors?

Thomas Peterffy

So they do not accept payment from order flow, but they route to the same people if you look at the 606 reports. In other words, they route to Citadel and they route to Virtu and so do we. And so does everybody else we know. So all that means is that whatever the payment is, they pass it on to the customer in the sense that they ask the high-frequency traders to better that price by that payment, by the entire payment versus other folks who break it up.

And they say, "Okay, give 30% to the customers and 70% to me" or something like that, right? That's how it works. So the difference is that Fidelity may conceivably give a better price on the average than other people do, but that is hard to confirm and hard to make certain that that is true, and some numbers that have come out from Fidelity are certainly very weird, because they said, for example, that they improve the price by \$17 on average on a 1,000 share trade, and \$17 on one side would be 3.4 cents on a thousand shares quote – 3.4 cents wide and the high-frequency trader must -- they have some expenses and they would also like to make some profit --so I do not understand how that works, unless in the case of Fidelity, it is conceivable that they do all kinds of other business with these same firms and maybe they compensate them in some other way and -- that's a possibility, but I mean there are too many unknowns there. So don't ask me.

Chris Harris

Okay. No. Thank you for that explanation. I appreciate the earlier comments about no plans to the pricing scheme at IBKR Pro. But I'm curious, when was the last time if you guys have ever changed the commission rates on the IBKR Pro platform?

Thomas Peterffy

We never have. I mean, you know that our commission rates are tiered, tiered to volume. And so in a very few cases, some large volume potential customers says to us, "Would you do away with your very top tier." And the very top tier is for a very small volume and then they say it would be easier for us to keep track of everything if we didn't have to bill with that tier, and then in certain cases, we may agree to that. But that's basically, I remember, option commissions, we reduced maybe a couple of times, not by much and that's basically it.

Chris Harris

Okay. Just one last one here from me. With all these lost revenues across the industry, not for you guys but for obviously some of your competitors, there's renewed chatter about the potential for some industry consolidation. And so I just want to get your perspective: would IB consider or take a look at a potential transaction? Or do you guys feel like, hey, look, you've got enough organic growth in front of you and maybe won't need to entertain any kind of an acquisition or merger?

Thomas Peterffy

We're culturally used to growing our own business. And I think we're better-off with that than trying to digest other operation. And right now, it would be especially complicated because -- it's very hard to tell what these different operations would look like. So I don't think that we would be actively looking at ETRADE, that's probably what you have in mind. So no, we would not.

Operator

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

Mac Sykes

Happy belated birthday.

Thomas Peterffy

Thank you.

Mac Sykes

I did have a chance to look at the new platform, the gambling. And I thought it was pretty interesting, but given some of the interest in the politics, especially the Presidential, I thought maybe kind of active odds on some of that, with all of the candidates on the Democrat side, might be interesting. So my question is just kind of a follow-up on Mr. Harris' in terms of consolidation. For some of these smaller players, do you see the potential for them getting pushed more in terms of your introducing broker platform in the consolidation where they look to just adopt and take advantage of your scale and back-office?

Thomas Peterffy

I don't think we would do that. I think there are other folks who are better at that sort of thing. We are looking to focus on our platform to extend the capabilities and to grow organically. That's what we want to do.

Mac Sykes

Okay. I guess that was more in terms of evolving their models for their back offices to becoming introducing brokers, just adopting your model and white label it...

Thomas Peterffy

Oh, well that -- we are always open to that. It's up to them.

Mac Sykes

And just could you also talk about sort of the back-office aspects to - how is 0-commission trading impact clearing and the economics there, if any?

Thomas Peterffy

I do not see how that would be related. Paul, you have a different view?

Paul Brody

No, I agree with that. It's all the front-end pricing. And at the back end, we're extremely efficient at. And we do it in a low-cost way, that wouldn't change.

Operator

And I'm showing no further questions at this time. I'd like to turn the call back to Ms. Nancy Stuebe for any closing remarks.

Nancy Stuebe

Thank you, everyone, for participating today. And 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, this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.