

Interactive Brokers Group's (IBKR)

Q4 2021 Results - Earnings Call Transcript

January 18, 2022 4:30 PM ET

Executives

Thomas Peterffy - Chairman and CEO

Paul Brody - CFO

Nancy Stuebe - Director, IR

Analysts

Will Nance *Goldman Sachs*

Rich Repetto, *Piper Sandler*

Craig Siegenthaler, *BofA*

Dan Fannon, *Jefferies*

Mac Sykes, *G. Research*

Kyle Voigt *KBW*

Chris Allen, *Compass Point Research*

Operator

(Operator Instructions)

Please be advised that today's conference may be recorded. I would now like to hand the call over to your host, Director of Investor Relations, Nancy Stuebe. Please go ahead.

Nancy Stuebe

Thank you. Good afternoon, and thank you for joining us for our fourth quarter 2021 earnings 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 statements filed with the SEC.

2021 was a good year for Interactive Brokers. Adjusted revenues were \$2.78 billion, up 26% for the year, and expenses were well controlled, resulting in a pretax profit margin that improved from 61% to 67%, by far the highest in the industry.

Adjusted diluted earnings per share for the year were \$3.37, and that was 35% higher than the previous year. We look back at 2021 as one with unprecedented global investor engagement with the market.

The only better year we can see is 2022. Let me explain why.

In 2021, we added more customers, over 600,000, and did more trades, over 2.5 million DARTs per day, than we ever have before.

We introduced more products and more tools, while also expanding many existing ones.

And to assist with our continuing growth we hired and trained nearly 450 new employees around the world.

Our year-on-year account growth was 56% this year. I've been saying for some time that, after this unusually active period we have been experiencing, a period that seems to keep growing longer, we will see account growth closer to between 30% and 40% a year. But that does not mean that we will not do almost anything we can think of to try to keep it above those levels.

We introduced more new products and expanded the capabilities of existing ones.

Recognizing our global customer reach, we introduced GlobalAnalyst, which allows our clients to discover undervalued companies from a wide database of global stocks.

We introduced our crypto offering. U.S. individuals, RIAs, hedge funds and introducing brokers, as well as individuals in over 100 different countries, can now all trade crypto through our partner, Paxos.

Very shortly, we will be offering crypto for our international financial advisers, iBrokers and Hedge Funds in those countries, and we will add more countries continually.

We charge just 0.12% to 0.18% of trade value, with a minimum \$1.75 per trade.

We rolled out our ESG-focused IMPACT app, which brings transparency and a streamlined, simplified platform to help clients find and invest in companies that share their values. IMPACT also allows them to make cash donations to thousands of different U.S. charities directly from the app.

We also introduced U.S. spot gold trading.

And these are just a few of the items we have been working on, and we have other exciting products and improvements in various stages in advance of being rolled out.

As 2021 drew to a close, IBKR was able to produce its second-best quarter of the year after the hyperactive meme stock events of the first quarter. But the story of the meme stocks will fade in the minds of investors, while the most remarkable story of the year, the huge rise in popularity of options and, more specifically, option spreads, will remain.

As someone who has spent the last 50 years trying to automate the options industry, I very much welcome this development. For a long time, Interactive Brokers was alone, trying to stir up industry interest to computerize these markets.

But now, finally, people are beginning to understand what fantastic versatile instruments options are.

I am predicting further growth, especially internationally. Option spreads give traders the opportunity to assume very specific and limited risk-reward profile, for specific periods of time.

Please visit our Probability Lab on the IBKR website for a fun way to think about, learn about and play with options.

As the year wore on, listed options saw an average daily volume of nearly 40 million contracts, and Interactive Brokers customers responsible for roughly 10% of daily options volume.

This is even more than in equities, where we are only about 7%.

Execution quality is most important for options traders, especially for options spread traders, where profits and losses tend to be limited and every penny matters. Even the minimum price difference of \$0.01 amounts to \$1 a contract, and bid offer spreads in the market regularly get as wide as \$0.05 to \$0.10.

Interactive Brokers does not accept payment for order flow for IBKR Pro customer orders. We auction off each option order among 16 top market makers. We are always happy to welcome more to this group.

These auctions last something on the order of 100 milliseconds, and the winner chooses which exchange it wants to use to trade with the order.

IBKR then posts the order for an exchange auction, and if nobody improves on the agreed-upon price, the original winner of the auction trades the contract at that price.

This may sound like a rather involved process, but in practice it all happens in a fraction of a second. All participants use automated processes and they automatically feed the amount of price improvement they are interested in competing on for any specific option contracts they trade with at that specific point in time.

In this way, our customers can take advantage of a leading-edge system designed to get them the best available price.

Having been the largest market makers and options for over 30 years, IBKR is very well-versed in these processes, many of which we have retained from our Market Maker Days, and we have been keeping them up to date over the years.

As new exchanges and new rules are continuously introduced, this is not an easy task, and we have a team of programmers regularly engaged in this activity.

Imagine if payment for order flow were prohibited, and all brokers are forced to execute their own customer orders. Sophisticated mechanisms, like the ones we developed and use, would be expensive and take a long time others to create.

While the idea is interesting to think about, I do not think that it is about to happen anytime soon.

Another notable development for IBKR in 2021 was a 40% increase in margin loans over the course of the year. I think this growth will also continue into the future. With 7% inflation as the background, stock prices will have to rise by 7% just to retain their relative values.

I believe inflation will continue at a high rate. There is very little the Fed can do about it.

They may raise interest rates to 1% or 2%. Who would not borrow at that rate and invest in leveraged assets?

Even if the Fed funds rate rises to 3%, Interactive Brokers will lend at 3.75% to people who want to buy stock, whether or not they combine it with options strategies.

But 3% is not likely.

A slightly over 3% interest rate would add \$1 trillion to annual U.S. debt service and to deficit

spending, which would just further increase inflationary pressures.

Inflation is here to stay. We'll have to learn to live with it and margin lending will continue to grow along with it.

We aim to grow our businesses by growing our customer base. We will continue to introduce new platforms, products and research and trading tools to attract new customers of the type that fit our target: serious, hard-working and educated investors who come to us to succeed with the help of our execution quality and products and services.

With that, I will turn the call over to our CFO, Paul Brody. Paul?

Paul Brody

Thank you, Nancy and good afternoon. I'll review our fourth quarter results, and then open it up for questions.

I will start with our Revenue items on page 3 of the Release. We are pleased with the record results we achieved this quarter, and we believe the robust growth in customer accounts positions us well in both our transactional and financing businesses going forward.

Commissions continue to be strong, returning our second-highest ever quarterly revenues of \$320 million, and contributing to a full year record of \$1.35 billion, up 21% over the prior year. We saw substantially higher trading volumes in stocks and options in 2021, coming from our large base of active traders, investors and advisors, and a wave of new customers on our platform.

Net interest income was strong, generating \$295 million in revenues, also our second-highest quarterly performance, and leading to a record full year NII up 32% to \$1.15 billion.

Margin lending continued strong, as investor confidence in the markets continued.

Securities lending also continued its strong run, showing investor demand for a broad range of securities to borrow, met by a growing supply of inventory held by our customers.

We generated \$58 million in revenues from Other fees and services, and \$218 million for the year, up 25% despite the midyear discontinuation of account inactivity fees. Strong client activity drove revenues higher in market data fees, risk exposure fees and income from options exchange liquidity payments. Market data fees reached \$20 million, up 18%; risk exposure fees rose over 300% to \$18 million; and higher volumes led to 43% higher exchange liquidity payments of \$10 million.

Other income includes gains and losses on our investments, our currency diversification strategy and principal transactions. Many of these non-core items are excluded in our adjusted earnings. Without those items, Other income was \$10 million for the quarter and \$64 million for the full year.

Turning to expenses, Execution, clearing and distribution costs were down, even with the increases in trading volumes. At \$53 million, these costs were down 20% from the year-ago quarter and down 19% for the full year.

As a percent of commission revenues, execution & clearing costs, which are driven by trading volume, declined from 22% in 2020 to 13% in 2021.

I've transferred to a headset. I'm hoping that maybe my audio comes over a little bit better.

So this quarter, the execution & clearing costs were also reduced by lower regulatory fees as the SEC lowered the rate on U.S. stocks and by a temporary fee holiday on U.S. options by the OCC.

Because these benefits are largely passed through to our customers, both costs and commission revenue decreased accordingly.

As a result of our order routing improvements, which include utilizing our low-cost IBKR ATS for stock execution, a greater portion of our commission revenue goes to the bottom line.

Our ratio of compensation and benefits expense to adjusted net revenues was 18% for the quarter and 15% for the year, relatively unchanged from last year despite a 26% increase in the headcount.

We continue to focus on expense discipline, while improving our strong top line. Our head count at year-end was 2,571.

G&A expenses were up 27% from the year ago quarter, though down 25% for the full year, reflecting lower legal expenses on litigation, partially offset by higher spending on advertising and required fees.

Our adjusted pretax margin remained a robust 66%, by practicing expense control while also hiring and investing in the business for accelerated growth, we continue to maintain the operating leverage in our business.

Finally on the income tax line, of the \$35 million shown, the operating company's portion was \$19 million and the public company's portion was \$16 million.

Moving to our balance sheet on Page 5 of the release. Our total assets ended the year at \$109 billion, with growth driven by margin lending to customers.

Our consolidated equity capital was \$10.2 billion, having reached the \$10 billion mark for the first time last quarter. We have no long-term debt.

We continue to deploy our balance sheet to support our growing client business in particular. More and larger customers want access to margin lending, which our capital base gives us the ability to provide. We opened 2 offices in Europe in response to Brexit. For those in our other rapidly growing international locations, our capital base provides the foundation needed today's operations and for future growth.

Our capital is also used for numerous other growth and investment opportunities we see worldwide. And finally, an ample capital base helps us win business. by showing the strength and

depth of our balance sheet to current and prospective clients and partners.

Let's now look briefly at our operating data on Pages 6 and 7 of the release. Page 6 shows contract and share volumes for all customers rose 46% in options, well above industry growth, and 19% in futures.

While our stock share volume fell 3%, the product mix produced a 1% increase in commissions.

Activity is strong across client types and geographies. In most securities products, our volumes are well above the high average activity level of 2020.

Turning to Page 7. Account growth remains robust with over 600,000 net new account adds for the year.

Total accounts reached 1.68 million, up 56% over the prior year and 9% over the prior quarter. Customer equity growth reflected strength in new accounts, solid additions to existing accounts and a generally supportive market environment.

Total customer DARTs reached their second highest quarterly level at over 2.4 million trades per day. This reflected investor confidence in rising markets, the ongoing global search for yield in zero and negative interest rate environments, and more customers on our trading platform.

Commission per cleared commissionable order continues to show our success in capturing rebates paid by exchanges for our clients.

When we route IBKR Pro orders directly to exchanges, we realize these exchange rebates and pass the savings on to our clients by lowering their commissions.

Our cleared IBKR Pro customers paid \$2.38, 3% less per order than they did last year, as our order routing system found opportunities to maximize rebates while achieving best price execution.

Our clients benefit with lower commission costs as we pass our lower execution and clearing costs on to them. Profitability per order to us remains the same.

Turning to net interest margin. We break down our net interest margin on Page 8. Total GAAP net interest income was \$295 million for the quarter and \$1.15 billion for the year, both up over 30% from a year ago, reflecting, in particular, increases in margin lending and securities lending.

Average margin loan balances were up 58% for both the quarter and the full year, leading to increases in margin loan interest income of 60% and 41% for the fourth quarter and full year, respectively. Investors remain comfortable taking on leverage in the current rising market environment.

Securities lending net interest was up 17% and driven by strong client participation in the markets. As our customer base grows, our opportunities to lend customers' shares to other customers who short those stocks also grow.

Together with increasing our profitable securities lending to other broker-dealers, the model generates expanding revenues. We believe our proprietary system, developed in-house for securities lending and operated by our team of specialists, is proficient in identifying and lending out securities in high demand, which drives our revenue from this activity.

Moving to net interest from segregated cash and from customer credit balances.

This continues to reflect the impact of negative benchmark rates in certain countries. When benchmark rates are very low as they are in the U.S., we pay no interest to customers on their cash. But in currencies where rates are negative, we earn interest by passing through these negative rates to customers. We earned \$8 million on these balances.

When benchmark rates are positive, we earn interest on depositing, investing our segregated cash balances. But because of negative rates in some currencies, we had a net cost of \$5 million on these balances.

Taken together, the net interest income from these balances was \$3 million for the quarter.

Now our estimate of the impact of an increase in U.S. interest rates. We expect the next 25 basis point rise in rates to produce an additional \$165 million annually.

The increase from past estimates is driven by higher margin loan balances, and also follows our introduction of new interest rate tiers and spreads on January 3 of this year.

This does not take into account any change in how we may adjust our investment strategy to take advantage of newly higher rates or a change in our assets.

About 24% of our customer cash balances are not in U.S. dollars, so estimates of the impact of U.S. rate changes exclude those currencies.

As forecasted, Federal Reserve rate consensus for 2022 centers around more than one hike. We can add that a second hike would produce a similar, although somewhat lower, annual benefit to the first.

In conclusion, we had a strong quarter to close out a record year, reflecting our ability to grow our customer base and product set, and that shows the attractiveness of our strategy to automate for growth, expanding what we offer while minimizing what we charge.

Given our progress and performance, we are confident in our ability to grow accounts as Thomas has indicated, maintain our expense discipline and to capture future opportunities as they arise.

With that, I'll turn it back over to the moderator, and we will field some questions.

Q&A

Operator

(Operator Instructions)

Our first question comes from the line of Rich Repetto of Piper Sandler.

Rich Repetto

Can you hear me now?

Thomas Peterffy

Yes, we can. Yes.

Rich Repetto

So the stock shares traded quarter-to-quarter were down. I know, only 3% year-over-year, but I think it was 32% quarter-to-quarter. I suspect that was a lot of low-priced stock trading in 3Q. But could you sort of verify that, Thomas? And also...

Thomas Peterffy

You're absolutely right. So -- Many years ago, we put in a commission limit, so that we would never charge more than 50 basis points on a stock trade. And that slowly brought more and more low-priced stock traders to us.

Eventually, it appears that there are some regulatory concerns about the stock trading, and we have successfully reduced it. It's got no income impact whatsoever. It's -- those are very tiny numbers.

Rich Repetto

Got it. Understood. Okay. And then, Paul, you sort of touched on this question, but not just -- 3 rate hikes in 2022 priced in and 3 more in 2023, I guess the question is, you said it -- the second rate hike would be similar. But I thought you said similar but lower. Any way you could sort of give us a feel for incremental hikes that -- there's 4 to 6 out there.

Paul Brody

Yes, sure. So the way we model it, the 1 hike was an increase of an expected \$165 million for the year. We would model 2 hikes. And by that, I mean over the first 2 quarters and then it remains there, each 25 basis points.

That should add about another, an additional \$120 million annually.

And 3 hikes in consecutive quarters would add about another \$45 million. And so you have to understand what -- the dynamic here is that at 2 hikes, so then Fed funds would be around 57 or 58, let's say, basis points, we start to pay interest to our customers at Fed funds less 50 basis points, whereas right now, that number is 0.

So therefore, after 3 hikes, we then ratchet up our -- the rates that we pay along with Fed funds. And the same thing happens on margin lending. So then we have a built-in spread, which is what we always used to have before rates dissolved down to close to zero.

So that's why incrementally, it benefits us, but less and less. And of course, this is keeping all other things equal, meaning the current balances in margin lending and deposits and so forth.

Rich Repetto

Okay. And the numbers I got -- and you can correct me, I'm sure one of them is wrong. Is \$165 the first, \$120 the second, incrementally, and then the third \$45?

Paul Brody

Yes, those are just estimates, but -- yes. Each one is incremental to the previous. Yes.

Rich Repetto

And beyond 3, incrementally \$45 as well?

Paul Brody

We haven't modeled it -- so don't hold me to it, but it would be a number no more than that. It

depends on where the deposits fall in terms of the tiers. Are they small accounts? Are they medium-sized accounts? Are they large accounts? And that will dictate what happens as the rates change. Some are more interest rate sensitive than others.

Rich Repetto

Got it. Thank you.

Operator

Our next question comes from the line of Will Nance of Goldman Sachs.

Will Nance

Maybe I can start with a question on the I think last quarter, you talked a little bit about some of the introducing broker accounts that were on a fully disclosed basis, and we're going to move over to an omnibus structure.

I was just wondering if that impacted some of the numbers recently and some of the metrics you guys have put out? And if you could just put a number of ballpark, how many have moved over and how much are left?

Thomas Peterffy

Yes. I think in December, an introducing broker went to Omnibus with 2,800 accounts.

Will Nance

Got it. Appreciate it. That's super helpful. And then I appreciate all the color on Rich's questions around interest rate sensitivity. Just you mentioned that, that didn't contemplate any changes in the reinvestment strategy.

I was wondering if you could talk kind of more theoretically about what kind of steepness in the yield curve would you guys look to before you would be more before you would consider taking a little bit more duration risk in the segregated cash portfolio, are we anywhere near where that's something you've been thinking about? Or is that still a far way off?

Thomas Peterffy

No, we are not. I'm extremely worried about much higher interest rates. Not because the Fed will move it there, but people will realize that they have to borrow money and leverage in order to keep up with inflation. And so I think that the Fed will lose control.

Operator

Our next question comes from Dan Fannon of Jefferies.

Dan Fannon

I was hoping you could expand upon your confidence around options activity and the sustainability of it or actually the growth? I think you highlighted that you think will still continue. Maybe the -- I don't know if it's the profile of customer that is using it that's different than others across your complex, or is it education or other factors that you think are -- that give you confidence around the sustainability there?

Thomas Peterffy

So I think the greatest factor here is that these developments that occur in the United States tend to be followed in other countries with some lag, and that lag is sometimes quite long, like 5, 10 years. And so this huge increase in the U.S. recently is certainly going to be followed by customers outside of the U.S.

And it is specifically the discovery by more and more people that combined -- option combination positions can give you very interesting risk profiles and there is more and more of that based on fundamental analysis.

So people tend to figure out that the stock could rise between \$2 and \$5, but not likely more and this type of forecast can be really harvested in the options market, then we just see a very big increase in these kinds of trades.

And as I've said, I expect that to be followed by foreign investors. And we are going to be very

large beneficiaries of that.

Dan Fannon

Okay. That's helpful. And then last quarter, when you reiterated confidence around the account growth and the outlook, you cited some marketing -- new marketing programs and targeted I think, campaigns that kind of were part of that confidence.

I guess could you expand a bit upon that if that's expanded, if you're allocating more dollars towards it or the returns...

Thomas Peterffy

Reallocating more dollars, more resources, more brain power, yes. That's where our future lies, and we're pushing that very, very hard.

Dan Fannon

Okay. And from a budget perspective, as we think about 2022 or beyond in terms of the spend, is that something that will be noticeable in the income statement as you spend those dollars?

Thomas Peterffy

Well, unfortunately, I'm really at -- we're willing to spend any amount that makes sense, but we find very difficult, we find it very difficult to find places that we can throw a lot of money at because anytime we find a new channel and it works great for, say, \$1 million.

But if you double it, your return only goes up by, say, 5% or 10%. That's incredibly frustrating.

So we continuously have to look for new channels and put little bits of money in there. and that is what we're doing so far. And we hope for a breakthrough, but it hasn't happened yet.

Operator

Our next question comes from Craig Siegenthaler of Bank of America.

Craig Siegenthaler

Thomas, I hope you're doing well. I'm doing well, too. So I want to come back to margin loan balances. I believe there were some pricing adjustments in the quarter, especially on your 2 highest tiers, \$1 million to \$50 million and over \$50 million. I wanted to see if you could help us quantify any impact from a revenue or earnings standpoint that, that could actually drive and when we could see that result.

Thomas Peterffy

Paul, you (inaudible) -- Sure.

Paul Brody

Absolutely. So we talk firstly about the rate rises. But based on the new policy alone, our estimates were that it would add annually about \$24 million.

And some of that's from putting money into different rate tiers. Some of it is treatment of negative rate currencies. And there's pass-through of some of those costs. But that's our overall estimate.

Craig Siegenthaler

I have to ask one on China just because it's been a big source of investor inbound. But -- Can you update us in terms of the 4Q revenue contribution from Mainland China or the 2 largest introducing broker clients that are there?

And then based on the evolving stance from the Chinese government, around data and foreign firms, how do you expect the size of these relationships to trend over the next year?

Thomas Peterffy

So as you know, the 2 largest customers are Futu and Tiger, and they are leaving us. Futu has practically left us. They have a very few accounts still with us. And Tiger is in the process of doing that.

As far as the Chinese -- I don't have a view on that. I'm very, very confused. Inside the company, we're not in total agreement as to as to how to attack that. So I can't really tell you. I mean, some of my colleagues are looking more favorably at the Chinese situation than I do.

Operator

(Operator Instructions)

Our next question comes from the line of Kyle Voigt of KBW.

Kyle Voigt

Maybe I could ask first question about the IMPACT, the mobile app launch. Just wondering if you could help us quantify kind of the uptake or maybe new account growth that it contributed in the quarter -- in the fourth quarter.

And then also just wondering if you could speak to -- How do you sort of expect revenues related to that app to kind of show up? I noticed that in app, you are advertising a bit more the Interactive Advisers and sustainable portfolios that are kind of prebuilt in there. So should we think about some asset-based fees as being maybe a bigger driver of revenues as this grows over a longer period of time?

Thomas Peterffy

Well -- No. I mean, our asset base fees, we're only charging 8 basis points. So that will not create -- that's more like bait to get people to come in. Now as far as the IMPACT app, I mean, we had 40,000 downloads of the IMPACT app. We are not -- we do not break out the revenues, but I wouldn't think that they would be substantial.

Kyle Voigt

Understood. And then I just sort of -- just want to go back to the interest rate sensitivity discussion. I believe in the second quarter, you had previously disclosed that roughly 14% of the customer credit balances, which was about \$11 billion at the time, were fully rate sensitive, or I guess, non-interest-bearing.

So I'm assuming that's really the cash in those small accounts are below that \$10,000 threshold in total cash balances.

I guess, is that still the right percentage to think about? And that 14% of total credit balances, or maybe you could provide an update to that \$11 billion number, just as we think about modeling, again, those kind of capturing the rate benefit past those first 2 hikes?

Paul Brody

Yes, sure. So the -- it's still in the 14% to 15% range. The...

Thomas Peterffy

That's not right. So the 14% to 15% range are the monies wherer the account has, let's say, \$100,000 in it, right? So...

Paul Brody

Well, they're in a number of categories. Under \$10,000, for example.

Thomas Peterffy

But that's only one of them.

Paul Brody

Yes. We have a number of categories that total up to about 14.5%.

Thomas Peterffy

Yes. But so the bulk of those folks that have half the money get half the interest.

Paul Brody

But only on the one category of under \$100,000. The amount between \$10,000 and \$100,000 gets a proportionate amount of interest that we would pay.

Thomas Peterffy

But the bulk of the \$11 billion is there.

Paul Brody

No, the bulk is in the very smallest accounts, under \$10,000. And commodity accounts where we don't pay interest actually contribute a non-trivial amount, and...

Thomas Peterffy

So you're saying that we have \$11 billion in account under \$10,000?

Paul Brody

That number is about \$7 billion out of a total of fully interest rate sensitive balances of about \$12 billion.

Thomas Peterffy

Okay. I don't want to argue with you here.

Paul Brody

Commodity balances, they're almost \$3 billion. So between the 2 of them, it's most of it.

Kyle Voigt

Okay. Maybe if I can just turn to -- turn to expenses, and then I'll jump back in the queue. Can you just help us think about the level of fixed expense growth as we're looking out into 2022? You mentioned that there's only -- you're only going to invest, obviously, if there's positive ROI on the marketing spend.

So I hear you there. But I guess when you're thinking about that fixed expense base as a whole and just hiring and everything else that goes into that, can you just talk about the pace of growth into '22?

Operator

Next question comes from Rich Repetto of Piper Sandler.

Rich Repetto

Yes. My follow-up I guess, has to do with the holiday, the OCC holiday where they didn't charge you. And I think it was for 2 months, but -- I guess, Paul, could you tell us how long the holiday -
- was it for the entire quarter?

And how much was it? I know it doesn't impact your profitability at all? And then any way to estimate how it might impact – how it weighed on your average commission?

Paul Brody

Right. So it wasn't a very big number. It was the last 2 months of the year. OCC over time has taken various approaches to their fee charging. What they used to do is charge even more about \$0.05, \$0.055 contract and then rebate it the next year.

What they did this past year was they started high and then they cut it in the middle of the year, and then they looked at their financials and cut it to 0 for the last 2 months. The number, it's \$2 million plus for us, somewhere in that range. So it's not extensive.

You're right to point out that most of that savings is passed through the customers, however some of it is not, because for customers who choose fixed as opposed to tiered pricing, we would get the benefit of that. Probably most of it is passed through.

Operator

Our next question comes from Chris Allen of Compass Point.

Chris Allen

Just wanted to ask on execution and clearing. The fee impact is helpful there. You talked about the impact of the Smart Order router, internalization on your ATS. And then obviously, there's been the competitive dynamic among exchanges.

I'm wondering if you can just walk through maybe over the last 2 years, what's had the biggest impact in terms of lowering execution and clearing fees as a percentage of commissions.

Any thoughts in terms of maybe on the exchange side, what the impact would be if some of the lower pricing we've seen now goes away, moving forward?

Thomas Peterffy

I am -- I can't answer you there, but maybe Paul, can you?

Paul Brody

Yes, I can give a little bit of color. So one aspect is that our Smart Router -- the Smart Router has become better and better at routing orders to places that will still give the best price to the exchange, but give a better rebate.

And when we talk about the spread between our commission revenue and our direct costs, these execution and clearing costs going up, that's because \$1 saved, or rebated and then passed through to the customer, has a smaller percentage impact on the commission revenue than it does on the expense line, which is smaller to begin with.

So each \$1 we get, even if we pass the full thing through to the customer, the percentage spread would continue to increase. Of course, the other thing is that as we attract more and more orders to our ATS, there's no external cost to executing those at all, and that simply reduces the cost line.

Chris Allen

Got it. And maybe -- Just one quick one on Other fees and services. I know you talked through it, but we had a really hard time to understand some of the details there.

Maybe if you can just repeat that real quick just in terms of, I think, what the key growth drivers were on that were -- the year-over-year perspective?

Paul Brody

Well, over the current period, the drivers were market data. Market data is also offset by an expense, and we earned some profit on it, but it's -- When we talk about the Other fees and services, that's the revenue side of it.

Exposure fees, so we charge, as we've talked about in the past, we run stress scenarios on every client account. And when the stress scenario, which is a more conservative measure of risk than the margin system would impose when they reach a certain level, the system begins to charge fees, which is intended to encourage the customer to reduce their own risk or carry it at -- hopefully proportionately higher fee to us, and we collect those fees over time. So those happen to have gone up.

And then the options exchange payments the payment programs mandated by the options exchanges go up with volume. And so that's the third component -- major component of what's been driving up the Other fees and services.

Operator

We have a follow-up question from Craig Siegenthaler of Bank of America.

Craig Siegenthaler

I have a follow-up here on crypto trading and the partnership with Paxos. Can you just update us on your progress to add more coins?

And if I think about your 1.7 million accounts, how many of them are active in trading cryptocurrencies today? And have you seen your crypto offering accelerate organic growth?

Thomas Peterffy

So we are going to add, most probably, 2 currencies and possibly 2 more within a month. The probable ones will be LINK and MATIC and the possible ones will be UNI and AAVE. We are also working on SOL, but that we not be added until towards the end of the quarter.

Your question about...

Craig Siegenthaler

My second question was: Out of your 1.7 million accounts, how many are active in trading crypto today? And then also, are you seeing crypto drive new clients to Interactive Brokers?

Thomas Peterffy

We are seeing a small number of new clients coming to us because of crypto. And the take-up among our existing clients is kind of disappointing.

So I think that we have not been successful in driving home the message that our commission rates are 2/3 lower than the next lowest provider.

And -- or the problem is that we do not have all the popular currencies and people cannot trade them against each other on our platform.

Craig Siegenthaler

Thomas, and I just had one follow-up here. And this one may be even better for Paul because it's more of a financials question. But we've seen your clearing and execution costs really decline on a long-term basis relative to trading activity and commissions and gaining some operating leverage and some efficiencies. What is your thought on the future of that trend? Will that benefit continue into the future?

Paul Brody

We certainly hope so. We hope that the marketplace will give us more and better opportunities to have our Smart Router be better. And we always look for those opportunities and we look to improve on the software.

And as I said before, the more volume we can attract into our own ATS that will there's no associated external cost with those executions. And so we hope to be very successful with that.

Operator

Our next question comes from Mac Sykes of Gabelli.

Mac Sykes

I have 2 questions. I mean, your capital generation continues to be amazing, and then hopefully, the uptick with the interest revenue. And I assume that you have not changed your stance on wanting to bolster your balance sheet.

But you had talked in the past about having some more capital for funding foreign margin. Is that still the case? Are you still seeing demand kind of outside the U.S. to be able to fund those margin balances?

Thomas Peterffy

Yes. Basically, the answer is yes.

Mac Sykes

Okay. And then on crypto, for those adopters, what are the policies related to using margin? And are you seeing some customers...

Thomas Peterffy

We are not allowing margin on cryptos. I have heard Mr. Gensler say that if you leverage a crypto, then it's certainly a security.

Mac Sykes

And are you going to be able to offer short abilities for that and financing off of the currency holdings in the future?

Thomas Peterffy

As I said, we cannot finance crypto. No, we will not lend.

Operator

Your next question comes from Dan Fannon of Jefferies.

Dan Fannon

I just, Thomas, wanted to ask about your confidence around the account growth of 30% to 40% as we look at the Fed futures outlook for the level of hikes that are currently being contemplated, how do you think that could change your account growth trajectory or as I said earlier, your confidence around that?

Thomas Peterffy

I think if markets remain at current levels or go lower by less than 10%, and if there is not a huge international catastrophe like some war, then I think that this rate of increase will continue.

Operator

Our next question comes from Kyle Voigt of KBW.

Kyle Voigt

I just wanted to circle back. I don't know if my audio was coming through previously. I'm just wondering if you could help us think about the level of fixed expense growth heading into 2022. I don't know if that's better for Paul or...

Thomas Peterffy

No, I think an assumption of -- so we're basically talking about communications, computers, salaries and wages, right?

I think about we could assume a 15% growth rate. Paul, you have anything to add here?

Paul Brody

No, I have no other opinion than yours on that topic.

Kyle Voigt

Got it. And then just a clarity question on the fourth quarter margin yields, they compressed to about 114 basis points. I think last quarter, they were 120 basis points.

I'm assuming that was just mix in terms of the balanced tiers in the fourth quarter. Is that right, Paul?

Paul Brody

Actually, Kyle, last quarter, you did mean in the third quarter as a comparative?

Kyle Voigt

Yes, the third quarter was 120 basis points and the fourth quarter, it was 114.

Paul Brody

I've got 113 in the third quarter and 114 in the fourth quarter. Maybe we should both go back and check.

Operator

At this time, I'd like to turn the call back over to Nancy Stuebe for closing remarks. Nancy?

Nancy Stuebe

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

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.