Interactive Brokers Group (IBKR)
Q1 2015 Results – Earnings Call Transcript
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Executives

- Thomas Peterffy - Chairman and CEO
- Paul Brody - CFO

Analysts

- Chris Harris - Wells Fargo
- Rich Repetto - Sandler O'Neill
- Niamh Alexander - KBW
- Rob Koehn - Ivy Lane Capital
- Patrick O'Brian – Teton Capital

Operator

Good day everyone and welcome to the Interactive Brokers first quarter 2015 earnings results conference call. This call is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to Bill Cavagnaro, Investor Relations. Please go ahead.

Bill Cavagnaro – Investor Relations

Thank you, operator. Welcome, everyone. Hopefully by now you've seen our first quarter earnings release, which was released today after the market closed and which is also available on our website. Our speakers today are Thomas Peterffy, our Chairman and CEO and Paul Brody, our Group CFO. They'll start the call with prepared remarks about the quarter and then we'll take questions.

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

Now I'd like to turn the call over to Thomas Peterffy.

Thomas Peterffy - Chairman and CEO

Good afternoon everyone, thank you for joining our first quarter 2015 earnings call. The first quarter was an eventual period full of good and bad news. In January '15 at 4 AM

New York Time the Swiss National Bank announced the immediate removal of their peg which was willing to sell unlimited amount of Swiss francs against the euro.

In the following, seconds all size of our offers of Swiss francs against any of their currency were withdrawn from the market. On Tuesday were reestablished later with the currency fluctuating wildly 15% to 30% higher. We were in the unenviable position with brokers of tons of very large price moves usually find themselves in, of having customers on both sides of this event and having to pay the winners while being unable to collect all the losses from the losers. The bulk of our losing customer's positions were futures contracts listed on the CME and some in the cash markets. As we announced at that time we estimated our difficult to collect customer losses of around $120 million.

This loss turns out to be closer to $121 million and that is the amount that we have written down for the quarter. We are vigorously pursuing our claims but sizeable collections if any will likely come a long time from now but at a high legal cost.

Besides from the violent moves into Swiss franc other currencies also traded in very volatile market, but by the end of the quarter the dollar ended at historic highs against many of them. As you know, being a global company, we service customers all over the world, loans and money and execute settle and clear trades for the many different currencies.

Throughout the day, we keep our assets and liabilities hedged to the global which is an international basket of currencies. As the value of the global declines relative to the U.S dollar our net worth diminishes in dollar terms and that is reported as a loss in our earnings. This close for the past quarter amounted to $197 million.

On the brighter side in the past quarter, we saw not only new highs, a number of customer accounts, deposits, margin loans and credits but the rate of increase in new accounts and deposits have accelerated from the previous quarter and the previous year. Our business is growing faster now than it did in the past several years and I believe that this will continue to grow faster.

Why? Let's look at the following developments during the quarter. Scottrade close to use our platform to service their more sophisticated option trading customers. These are customers who maintain a complex set of option position and want to trade several different series on the same underlying in one order. The broker realized that it's less expensive for them to use our platform than to develop and maintain their own. We maintain each of their customers' accounts separately in the customers' name and they get the same technology as our direct customers get.

Why don’t they worry that their customers will come to us directly? Because our commissions are based on volume and we charge Scottrade as though their customers came to us from one account. This setup allows them or for that matter any of our introducing brokers to charge their customers the same lower rate we will charge them if they came to us directly. And yet keep the bulk of that commission for themselves and pay us less than it would cost them to maintain their own technology around those accounts.

If the broker also provides live contact and assistance as Scottrade does so well, they may even charge a service premium that many customers are happy to pay. This is a milestone event for us because it is the first big household name to decide to use our technology. The fact that Scottrade chose us to provide this service is a vote of confidence in our platform that we are proud of. We think it is an example that other brokers will follow and that eventually we will become the industry utility providing exceptional technology to brokers and advisors at a very low cost cheaper and better that they could do it themselves. Quite coincidently JPMorgan recently decided to stop servicing the correspondent broker accounts and asked them to transfer their business to a different prime broker or carrying broker within the next 180 days.

These JPMorgan customers include many of the well-known mini-primes and other brokerage firms that do not clear and custody their customer's trades themselves. In response other banks in the correspondent clearing business are raising their rates or instituting a higher minimum revenue requirement per account or simply asking smaller clients to go elsewhere. The small and medium size brokers and hedge funds have clearly been underserved and they are even more underserved now. Needless to say these are fantastic development for us. Given that our platform is largely automated and is becoming even more automated as the days go by, our expenses associated with any additional accounts are so small that we are happy to service relatively small accounts at our variable rates as long as they are at least minimally active.

Our primary objective is to keep growing our customer base and it is to that end that we continue to emphasize the technological development of our platform. However, we find that being by far the least expensive broker providing much better execution and much lower financing rates, displaying our up to moment shortable inventory with applicable rates offering the most globally diversified product base coupled with the ability to seamlessly move across different currencies may not be enough to maintain a 20% growth rate that we need to have.

We must offer more than that. We need to offer more ease of use and navigating through the complexity that inevitably comes with our feature rich platform. We need to offer risk analytics and what if scenarios in more dimensions. We need to offer a more online research tools and sources with interactive research and back-testing capability. Our clients need more choices of advisors and hedge funds to invest with and our advisors and hedge funds clients need a greater pool on the investors to appeal to.

We need to offer more choices of investment strategies, methodologies and ideas to our individual investor register advisor and hedge fund clients. This is all evolving within our Interactive Brokers Investor Marketplace.

I should also mention here that I’m pleased to announce that just yesterday we signed an agreement to purchase Covestor a unique robo-advisor. Covestor recruits registered financial advisors, vets them, analyzes their investment track records and groups them by their risk profile. Similarly retail investors who are interested in having their individual accounts robo traded are grouped by their risk return preferences and members of matching groups are electronically introduced to each other. Retail advisors can assign their accounts to be traded, sorry -- retail investors can assign their accounts to be traded by one or more advisors, who in turn charge their assignors a fee with a limit and Covestor shares in these fees.

Now compare this to investing with the registered investment advisor or hedge fund. The customer investing with Covestor maintains his or her individual account in his or her name with Interactive Brokers and we will pay a maximum 1.5% management fee plus up to 12% performance fee of which 0.25% of the AUM and 2% of the performance will go to Covestor. It is clearly better and safer deal for the customer. The manager on the other end will just create his own account and you'll never have to worry about the marketing customer account of book keeping and administration. Up to 1.25% of AUM and 10% of the performance fee will be automatically paid into the manager's account periodically.

Covestor technology would take care of everything else. For example assume that the manager is running a $1 million account has built a satisfactory track record on the Interactive Brokers platform and about 200 Interactive Brokers customers assigned a total of $50 million of their account equity to be traded by the manager. When the manager transmits an order to buy 1,000 shares of Microsoft for his account, for his own account, Covestor will send the buy order for 51,000 shares of Microsoft to Interactive Brokers. IB will buy the stock and Covestor will allocate the shares 1,000 to the manager and the remaining 50,000 shares among the 200 accounts all at the same average price.

Assuming that the manager chose the maximum allotted rate of compensation and he produced a return of 10% for the year, he or she will receive one and a quarter of a percent management fee or $625,000 and on the $50 million AUM and $500,000 of performance fee, but Covestor will receive $125,000 and $100,000 respectively. Given the Covestor has already been operating on the Interactive Brokers platform integration is not going to be very difficult. It will mostly consist of modifying some of their charges and practices and marketing their service to our accountholders and marketing the Interactive Brokers' platform by offering among with many of our features now also Covestor capabilities. We do not expect this acquisition to be immediately accretive to earnings, but we hope to build this overtime as a distinct component of our brokerage services.

But Covester is just one item on a list of things that we have been working on and we will continue to be working on in the coming quarters. We have released several new features and will continue to do so as we go along including a new website and a new mobile account application later this week, and a new desktop application soon after that.

The versatility of investment tools and the multitude of connections any of our individual or institutional clients will be able to make on our platform a year from now in order to maximize the return will take your breath away.

It's always the same idea. We must build technology to enable our customers to generate significantly better returns than our competitor's customers can.

Now to just briefly touch upon the numbers, our pretax losses for the quarter were $111 million. The Swiss franc event cost around $121 million and the decline in the global reduced income by $187 million. Adjusting for these two events, our profit for the first quarter would have been $197 million. The same quarter in 2014 adjusted for global showed $196 million yielding a modest improvement of half of 1% for the year-to-year comparison. So why am I still happy with this quarter and the year-to-year increase is negligible? I'm happy because our brokerage income was $34 million higher than a year ago but that was counterbalanced by market making being $33 million lower. In other words, adjusting for the Swiss franc year-over-year our brokerage income grew by 27%.

Now turn the call over to our CFO Paul Brody who will go deeper into these numbers.

Paul Brody - Group CFO

Thank you, Thomas and welcome everyone to the call, thanks for joining. As usual I'll review the summary of results then give segment highlights before we take questions. Results of the first quarter were driven by an outstanding performance in brokerage tempered by the setback and the Swiss franc event and by significant headwinds from the currency movement. Core brokerage results benefited from higher commission revenue and especially net interest income and market making results were in line with the average quarter for 2014.

As we've stated before financial statements includes the GAAP accounting presentation known as comprehensive income which reports all currency translation gains and losses including those that reflect changes in the U.S. dollar value of the Company's non-U.S. subsidiaries which is known as other comprehensive income or OCI and these are reported in the statement of comprehensive income.

The U.S. dollar strengthened relative to all major currencies except the Swiss franc during the first quarter 2015. And as a result, the currency basket in which we keep our equity which we call the global weakened against the U.S. dollar by an unusually larger 3.8%. OCI is a component of the total global effect and the rest is contained in other income. We estimate the total negative effect from the global on our reported earnings per share for the quarter to be $0.36 with $0.02 reported as OCI and $0.34 as other income.

In addition, we estimate the negative effect from the Swiss franc event on reported earnings per share for the quarter to be $0.19. Excluding the effects from both the global and the Swiss franc event diluted earnings per share for the quarter is estimated at $0.31.

Before I begin on the operating results, I would like to provide some updates on our risk management efforts in light of the Swiss franc event. The actions of the Swiss National Bank in January were unprecedented. We did not adequately guard against the risk associated unlikely events. Once the SNB made the announcement that they would no longer support the exchange rate peg with the euro the market reaction was too swift to liquidate customer futures and spot positions before large losses were incurred.

While other market participants were crippled by losses from this event, our losses of a $121 million were less than a 2.5% of our equity capital and our operations were unaffected. Nevertheless the event prompted us to further tighten our risk management practices. In particular we formed a committee of senior executives to focus on event driven risks. We produced models for potentially loss producing events that might stem from economic, political, regulatory or other actions.

We have also prioritized our efforts to build more risk factors such as market liquidity and foreign currency exposure into our margin software. As a result we have enabled to reduce our aggregate risk to customers in extreme market move scenario.

Overall operating metrics to the latest quarter were mixed across product types versus the year ago quarter. The brokerage customer metrics continued upward. Average overall daily trade volume was 1.28 million trades per day up 10% from the first quarter of 2014. Electronic brokerage metrics continued to show solid increases in the number of customer accounts and customer equity.

Total and cleared customer DARTs were up 11% and 12% respectively from the year ago quarter and up 5% each from the prior quarter. Quarters from cleared customers who clear can carry their positions and cash with us and contribute more revenue came for 91% of total DARTs holding steady with recent quarters.

Market making trade volume was down 2% from the prior year quarter and other metrics were mixed in volatility levels and the actual to implied volatility ratio were up this quarter. Net revenues were $172 million for first quarter were down 52% from the year ago quarter. Trading gains were $62 million for the quarter down 41%, commissions and execution fees were $149 million up 9%. Net interest income was $93 million up 27% from the first quarter of 2014 and brokerage produced $89 million and market making $3 million with remainder in corporate.

Other income was a loss of $132 million, down from a gain of $40 million in the year ago quarter. And this was driven primarily by the currency translation losses which are reported in the corporate segment. Non-interest expenses were $283 million up 107% from the year ago quarter. Within the non-interest expense category the largest impact came from the loss recorded on the Swiss franc event. These unsecured receivables from customers are reflected in general and administrative expenses.

Execution and clearing expenses totaled $55 million up 2% from the year ago quarter. Compensation expenses were $57 million a 6% increase from the year ago quarter. At

March 31 our total headcount was 962, an increase of 7% from the year ago quarter and little changed from the prior year end.

Within the operating segments we continue to add staff and brokerage and cut back in market making. As a percentage in net revenues execution and clearing expense accounted for 32% and compensation expense accounted for 33%. Our fixed expenses were 133% of net revenues reflecting the Swiss franc related customer loss. Of course all of these measures were inflated by the negative currency translation impact on net revenue.

Pre-tax income was a loss of $111 million down from a gain $218 million in the same quarter last year. Comprehensive diluted earnings per share were a loss of $0.24 for the quarter as compared to earnings of $0.35 in the first quarter of 2014, and excluding OCI diluted earnings per share on the net loss were a loss of $0.22 for the quarter as compared to earnings of $0.34 for the same period in 2014.

Now to get a better understanding of the progression of our business may be helpful to isolate the core operating results. For the quarter excluding special items, that is the currency effects and the Swiss franc related customer losses our core results were as follows. Net revenues were $341 million up 2% from the year ago quarter. Non-interest expenses were $144 million up 5% from the year ago quarter. Pre-tax income was $197 million up 0.5% from the same quarter last year and of that brokerage accounted for 86% and market making accounted for 14% of the combined pre-tax income.

Overall pre-tax profit margin was 58%, down from 59% in the year ago quarter and diluted earnings per share were $0.31 for the quarter even with $0.31 on the same basis and that's for the first quarter of 2014.

Turning to balance sheet, as a result of the growth of our brokerage business and the withdrawal of capital from our market making operations through regular and special dividends brokerage now accounts for about 80% of our combined balance sheet assets from the two segments. From the year ago quarter, our cash and securities aggregated for customers rose 7% and secured margin lending to customers rose 22%, while positions in securities held by our market maker units were paired back by 17%.

According to our announced policy, regular quarterly dividends will continue to temper the capital employed in the Market Making segment. In the first quarter, our market marking earnings fell short of the amount needed to fund the dividend. Our balance sheet remains highly liquid with low leverage. We actively manage our excess liquidity and we maintain significant borrowing facilities through the securities lending markets and with banks. As a general practice, we hold an amount of cash on hand that provides us with a buffer should we need immediately available funds for any reason. At March 31st, we maintained over $3 billion in excess regulatory capital in our broker dealer companies around the world, of which about 70% is in the Brokerage segment.

We continue to carry no long-term debt. And our consolidated equity capital at March 31, 2015 was $5.04 billion, of which approximately $3.1 billion was held in Brokerage, $1.7 billion in Market Making and the remainder in the corporate segment.

Turning now to the segment operating results. These will be more fully detailed in the 10-Q, so I will just highlight the noteworthy items starting with Electronic Brokerage. Customer trade volumes were mixed across product types, cleared customer contract and share volume was up 8% and options up 16% and futures down 23% in stocks. Much of the stock volume decrease came from trading in low price stocks. And foreign exchange volume also increased from the year ago quarter. Customer accounts grew by 17% over the total at March 31, 2014 and by 5% in the latest quarter. Total customer DARTs reached the new record level of 648,000, up 11% from the year ago quarter and 5% from the fourth quarter of 2014.

Our cleared customer DARTs also reached the new record of 590,000, up 12% on the year ago quarter and 5% from the prior quarter. The average number of DARTs per account on an annualized basis was 513, down 5% from the 2014 period and unchanged sequentially. Commission revenue rose on a product mix that featured smaller average trade sizes for stocks and larger in options and futures. This resulted in an overall average cleared commission per DART of $4.05 for the quarter, lower by 2% from the year ago quarter and 5% sequentially. Large volume executed in low price stocks on which our commissions are capped can skew these numbers somewhat and also note that the commissions include exchange fees which can vary widely.

Customer equity grew to $61.2 billion, up 25% from March 31, 2014 and up 8% sequentially, well outpacing the S&P 500 Index which rose 10% over the past year and was relatively unchanged over the latest quarter. The source of this growth continues to be a steady inflow of new accounts and customer assets and to some extent customer profit. Margin debits continued to build steadily increasing 22% over the year ago quarter, customer credit balances also continue to grow progressively increasing at 19% over the year ago quarter. So that compression and persists in restraining net interest income.

Higher trade volumes resulted in top-line revenue from commissions and execution fees of $149 million, an increase of 9% from the year ago quarter and down 4% sequentially. These revenues are spread mainly across options, future, stocks and foreign exchange. Net interest income rose to $89 million, up 35% from the first quarter of 2014 and down 2% sequentially. Low benchmark interest rates which continue to compress the spreads earned by our brokerage unit generally have been offset by steadily higher customer credit balances. And our aggressive lending rates continued to boost customer margin borrowing.

Our fully paid Stock Yield Enhancement Program continues to provide an additional source of interest revenue that is shared with our participating customers, and we continue to improve our securities lending utilization to capture more revenue from lending hard to borrow stocks.

Net interest income as a percentage of net revenues was 31% as our brokerage revenues are maintaining diversification between commissions and net interest income. With the growing customer asset base we believe we are well positioned to benefit from the rising interest rates. Based on current balances we estimate that a general rise in overnight interest rates to 25 basis points would produce an additional $45 million in net interest income annually. Further increases in rates would produce smaller gains, because the interest we pay to our customers is pegged to benchmark rates less a narrow spread.

Execution and clearing fees expenses increased $39 million for the quarter up 5% on the year ago quarter reflecting higher futures trading interest trading volumes and they were unchanged sequentially. Fixed expenses increased to $200 million up 285% on the year ago quarter due to the Swiss franc net losses. Pre-tax income from electronics brokerage was $51 million for the first quarter down 62% on the year ago quarter and 69% sequentially. And as I did with the overall numbers for the quarter excluding the Swiss Franc customer losses our core brokerage were as follows.

Net revenues were $272 million up 21% from the year ago quarter. Non-interest expenses were $100 million up 12% from the year ago quarter. Pre-tax income was a record $172 million up 27% from the same quarter last year and the pre-tax profit margin was 63% up from 60% in the year ago quarter.

Turning now to market making trade volume was down 2% from the prior year quarter. Contract volumes were down 7% in options and 26% in futures while stock share volume was unchanged. Trading gains from market making for the first quarter of 2015 were $62 million down 41% from the year-ago quarter. Pre-tax income from market making was $27 million for the quarter down 59% from the year ago quarter. Execution and clearing fees expenses fell to 16 million for the quarter down 6% on the year-ago quarter driven by lower trading volumes in options and futures.

Fixed expenses were 24 million down 14% from the year-ago quarter primarily due to employee compensation. We continue our aggressive expense management as we monitor the performance of the market making business. Taking a look at the corporate segment the earnings reported in the corporate segment reflect the effect of our currency diversification strategy. Our overall equity is measured in U.S. dollars was decreased by the strengthening in the U.S. dollar against all the major currencies more specifically we estimate the overall loss from our strategy is carrying our equity in proportion to the basket of currencies we call the global to be about $197 million for the quarter because $10 million of this loss is reported as other comprehensive income, this leaves a loss of $187 million to be included in reported earnings.

This loss is the primary component of other income in the corporate segment.

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

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from the line of Chris Harris from Wells Fargo. Your question please.

Chris Harris - Wells Fargo

So a few questions on the Scottrade announcement, how many accounts Thomas are we talking about now that are kind of part of this arrangements and you made a comment where you expect other brokers potentially to migrate over, wondering if you could maybe elaborate on that a little bit, are you talking about other e-brokers or you're talking about different brokerage firms than that?

Thomas Peterffy - Chairman and CEO

In the first quarter the Scottrade on-boarding was only 1,014 accounts. So the arrangement started in I think on the 1st of March and in the course of that months we on boarded 1,014 accounts but this thing is continuing. As far as our expectation, our expectation is that in the fullness of time we'll have -- there are being very, very few smaller brokerage firms that even include large electronic brokerage firms like Scottrade. Are there any other similar firms we are currently in conversation with, no. But I think that eventually there we will be and we are in conversations with many not so large smaller brokerage firms on the same idea.

Chris Harris - Wells Fargo

I guess my follow up is on the Covestor transaction. I'm sure I might get this wrong so definitely please correct me, but from what I understand it sounds like Covestor charges 1.5% of management fee and that seems kind of high relative to other Robo advisors in the space. So wondering what is that Covestor does that specifically differentiated where they can potentially capture a higher fee, in addition the performance fees.

Thomas Peterffy - Chairman and CEO

We have a higher caliber of managers and to the extent we do not -- it's up to the manager how much he charges, I'm saying that is the top the 1.5% is the top that the manager is allowed to charge.

Chris Harris - Wells Fargo

Okay.

Thomas Peterffy - Chairman and CEO

It was coming, say okay, I charge a quarter of 1% and if you otherwise qualify we will take you on.

Chris Harris - Wells Fargo

Understood, thanks guys.

Operator

Thank you. Our next question comes from the line of Rich Repetto from Sandler O'Neill, your question please?

Rich Repetto - Sandler O'Neill

I guess the first question is sort of clean up on the accounting and I guess it's for Paul on the e-brokerage results. You made an adjustment to the revenue side as well. I am just trying to -- when you try to do the -- stripping out the FX and the loss, so I'm just trying to see how the -- what was the net revenue adjustment on the e-brokerage results?

Paul Brody - Group CFO

So, that net impact is what we talked about the $121 million net loss and that was spread across actual somewhat higher customer losses and the fact that we took immediate action taking over positions and then liquidating them in as optimal the way as possible and we earned money back on that. And it ends up in two line items because the straight customer losses are on expense side. And then the liquidation gains end up in other income, but the net of the thing was $121 million.

Rich Repetto - Sandler O'Neill

And then on the other income, if you added back the FX -- if you took the full I think it was $187 added back that to other income, you'd come up with a very high number. Is that the proper adjustment that all the FX impact went through other income?

Paul Brody - Group CFO

Yes, as adjusted; if we took the whole $187 impact, it would all go to other income. Yes.

Rich Repetto - Sandler O'Neill

So, if you did that then the $187 minus $132, so there was $55 million of other income absent the FX impact?

Paul Brody - Group CFO

It could have been along those lines. In other words, the comparative quarter was $40 million but it wasn't far off from that.

Rich Repetto - Sandler O'Neill

And then I guess last and this is for Thomas I guess. So, a market maker, automated market maker just went public and the capital is much more limited capital. And I guess the question is how did you look at, if you did look at it Thomas, that model with limited capital when your market maker, I know it's coming down but still has I believe it's up and close to $2 billion $1.9 or $1.8 or whatever it is now?

Thomas Peterffy - Chairman and CEO

If you call them a market maker, they are different market maker than we are, namely they go home flat. We on the other end carry positions. So, our turnover is basically -- our market marking turnover is really once every 5 days. Their turnover is a matter of hours. So, they end up buying stock, buying a specific stock all day long, they eventually turnaround and sell it even if their stock never ticks up; we wouldn't do that. So, we provide longer term liquidity than Virtu provides and we almost never sell into a falling market or buy into a rising market which is not what they do.

Rich Repetto - Sandler O'Neill

And can I sneak one more in? Did you disclose how much you paid for Covestor?

Thomas Peterffy - Chairman and CEO

I'd rather not.

Operator

Thank you. Our next question comes from the line of Niamh Alexander from KBW, your question please?

Niamh Alexander - KBW

The Scottrade deal, if I could just clarify, is it specifically options trades that their customers are going to be using IBKR or their advisors that they work with for the options overlay? So, just help me understand the potential there. If they've moved over 1,000 accounts, will those customers know their trading with IBKR or will they have the option to trade equities as well or is there primarily just only the options capability that they'll be using IBKR for?

Thomas Peterffy - Chairman and CEO

So, it's sophisticated options traders' accounts that have been moved over to us completely. So, those accounts are with us and they are -- and they do everything in that account. What they needed was the ability to execute complex trades. And instead of building the system themselves, they rather chose us to do this for them. But since these accounts also need to have stock often and stock is often a part of the trade, so the entire account is with us. Now, its 1,000 accounts that came over so far but there are about another several thousand still in the queue. And also in the future, these kinds of accounts for sophisticated options traders will be opened with us when they come to Scottrade to open a new account.

Niamh Alexander - KBW

So, do you pay Scottrade some kind of a referral fee or how does that work? Will the commissions be low; are you paying them some kind of commission for passing…

Thomas Peterffy - Chairman and CEO

No, we are not paying them anything. They are paying us. So, say if you for the first 10,000 option contracts, if you come to us directly, we charge you $0.75 a contract. But if you trade over I think 100,000 contracts, we charge you $0.15 a contract. So, all the Scottrade accounts are looked at as though they were one account. So, they get the benefit of these volume tiers.

Niamh Alexander - KBW

So, hold on, everything that comes over from Scottrade is kind of treated as maybe omnibus or is it like a group accounts, so it kind of that lower fee?

Thomas Peterffy - Chairman and CEO

It's a fully disclosed account but for purposes of charging commission, we use them all as though there were an omnibus account.

Niamh Alexander - KBW

Thank you for explaining on that. And then, Paul, if I could just quickly on the -- I guess I'm trying to extract the Swiss because that was such an unusual item. Is it possible to separate maybe the tax effect of that and versus kind of a normalized tax rate because we saw very low tax rates during the quarter?

Paul Brody - Group CFO

Difficult in a short few sentences. But I think suffice it to say that the customer losses all occurred in our U.S. broker dealer Interactive Brokers LLC. Therefore, they would be subject to ultimately to U.S. rates and too anything complicated because they're not in foreign market.

Niamh Alexander - KBW

And then last if I could just and going back to Thomas, again if I could on the ownership of the business, you’ve given us some good information there, the discloser on the non-controlling versus the public and just more precise information. I guess the stock is back over to deal price such as a long time ago, just wanted to get an update on your thoughts owning the stock here and maybe starting to sell down some of your shares in the future and then may be exit capital.

Thomas Peterffy - Chairman and CEO

I think I said in the last earnings call that I am thinking about selling more amounts like 1 million shares for each dollar up. So by the time, the stock is up for 350 bucks, I may be out.

Niamh Alexander - KBW

Have you set up a 10b-5 or something like that?

Thomas Peterffy - Chairman and CEO

Not yet.

Niamh Alexander - KBW

But that's the plan?

Thomas Peterffy - Chairman and CEO

Haven't reached that level yet.

Niamh Alexander - KBW

And I guess the potential interest to sell the shares, but what about the capital in the business, still want to keep all this capital in the business?

Thomas Peterffy - Chairman and CEO

That's right.

Operator

[Operator Instructions]. Our next question comes from the line of Rob Koehn of Ivy Lane Capital. Your question please.

Rob Koehn - Ivy Lane Capital.

So, I'm going through the math on brokerage earnings and the trajectory and trying to skip out of these non-recurring items. At the current growth rate, it looks like mathematically you could get to a quarter of a billion dollars of quarterly pre-tax earnings in the broker sometime in 2016 which should be like $1 billion annualized. Is that a reasonable kind of conclusion looking at the growth track?

Thomas Peterffy - Chairman and CEO

It's reasonable if you look at the end of 2016, yes.

Rob Koehn - Ivy Lane Capital.

Do you really think that if you look at the -- it's reasonable if you look at the…

Thomas Peterffy - Chairman and CEO

Last quarter of 2015.

Rob Koehn - Ivy Lane Capital.

Yes, last quarter right. That's kind of what I am wondering, late Q3 and Q4 of 2016. And then going back to the Scottrade business, how does that come about? To the extent you are able to discuss, do you have a team of people that goes out and calls on other brokers, introducing broker business asking you and say hey, can we talk about this?

Thomas Peterffy - Chairman and CEO

Well, we have a team of sales people around the globe, roughly 35 of them. And their task is to approach other brokers, hedge funds and investment advisors and prop traders. So, these are the four classes of clientele that we are marketing to. And we also -- there is more and more publicity about the various things we do, they often receive calls. So, the conversation with one of our sales folks and Scottrade has been going on for I think about a year and half before actually decided on doing this.

Rob Koehn - Ivy Lane Capital.

There was an article actually in January Investor's Business Daily that said they have over 3 million total accounts. And I'm sure a lot of those are small but it seems like the active trader group is an important group to them and probably some of their most profitable customers. So, it's a little surprising. I mean what's the math from their perspective do you think?

Thomas Peterffy - Chairman and CEO

Well, you see that the next idea that we're thinking about trying to get them into is offering futures because they did not offer future trading right now. As we transfer all the -- after we have transferred all the options accounts, maybe we will think about talking to them about futures and currencies. The 3 million accounts mostly are small stock traders and they are just as well being where they are.

Rob Koehn - Ivy Lane Capital.

And then I guess last question on the new account growth, the investor presentation hasn't been updated in a couple of months. So, what classifications have you seen and that February and March were both records for the company in terms of new account growth. So, is that coming from which groups out of the I guess it's page 16 of the presentation, introducing brokerage hedge funds, prop trading, financial advisors and individual investors?

Thomas Peterffy - Chairman and CEO

I don't think the mix has changed drastically, so, it's about the same mix going forward.

Rob Koehn - Ivy Lane Capital.

I guess maybe last question in a couple of years or few years, what -- is it possible that a lot of these other kind of smaller prime brokers and electronic brokers just become front end sales organizations and white label?

Thomas Peterffy - Chairman and CEO

Our task is to make our platform good enough for them to say that to themselves that we can offer better service, if we offer Interactive Brokers platform and we just do the hand holding. So that's what we like to -- that's where you'd like to get.

Rob Koehn - Ivy Lane Capital.

Is that because the technology is such a high proportion of their cost structure?

Thomas Peterffy - Chairman and CEO

And it's difficult to maintain and it's not only the technology, also the back office and the relations. They are getting more and more complex. So, I don't think that smaller office can afford the expense of keeping that up to date.

Operator

Thank you. Our next question comes from the line of Patrick O'Brian from Teton Capital. Your question please?

Patrick O'Brian – Teton Capital

I guess I may be asking you to repeat yourself slightly, and it does look like the account growth accelerated in February and March. Could you just talk about what the drivers for that were?

<u>Thomas Peterffy</u> - Chairman and CEO

It's better technology, better sales, we have better known. Two years ago whenever we approached a potential client, they said Interactive Brokers who is that, that they never heard of them. Now that's no longer the case. The longer we have this, the better it will go I think.

<u>Patrick O'Brian</u> – Teton Capital

You wouldn't call out Asia or more introducing brokers or anything else particularly?

<u>Thomas Peterffy</u> - Chairman and CEO

No.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to management for any further remarks.

<u>Bill Cavagnaro</u> – Investor Relations

Thank you, everyone for participating today. Just as reminder, this call will be available for replay on our website. We will be posting a clean version of our transcript on our website tomorrow. Thanks again for your time.

Operator

Thank you, ladies and gentlemen for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.