Interactive Brokers Group (IBKR)
Q4 2014 Results - Earnings Call Transcript
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Executives
Thomas Peterffy - Chairman and CEO
Paul Body - CFO
Deborah Belevan - Director of IR

Analysts
Rich Repetto - Sandler O'Neill
Niamh Alexander - KBW
Mac Sykes - Gabelli
Chris Harris - Wells Fargo Securities
Rob Koehn - Ivy Lane Capital
Chris Allen – Evercore

Operator

Good day, ladies and gentlemen everyone and welcome to the Interactive Brokers Group Inc. 2014 Results Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, today’s program maybe recorded.

I would like to introduce your host for today’s program Deborah Belevan, Director of Investor Relations. Please go ahead.

Deborah Belevan - Director of IR

Thank you, operator, and welcome, everyone. Hopefully by now you’ve seen our 2014 earnings release, which was released today after market closed, and which is also available on our website. Our speakers today are Thomas Peterffy, our Chairman and CEO; Paul Brody, our Group CFO. They’re going to start the call with some prepared remarks about the quarter and then we’re going to take questions.

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

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

Thomas Peterffy - Chairman and CEO

Hi, good evening everyone, and thanks for joining us to review our fourth quarter performance. Our pretax earnings of $74 million for the quarter and $506 million for the year, as reported in US dollars, were seriously impacted by the rising dollar against most major currencies represented in the global. Without that impact these earnings would have been $180 million and $692 million respectively.

Brokerage income makes up $589 million or 85% of this total.

As usual we have set new records in our brokerage business both for the quarter and for the year. And the new year was taking off with even better numbers until last Thursday when it all exploded in our faces.

The forex markets were shaken by the shocking and unprecedented action of the Swiss National Bank which left many investors and companies devastated by the move, including a handful of our own customers that held large currency futures and forex positions. These customers' suffered losses in excess of their deposits with us to the tune of about $120 million, which amounts to 2.3% of our total equity capital. Normally our automated risk controls would liquidate client positions to prevent such losses, but in this case the move was instantenous and we were unable to liquidate. We do have full recourse to recover these losses but that will take time. The largest five losing accounts amount to about 80% of the losses and none of them are US entities. I will point out that this development presents an opportunity for us to attract displaced or shaken customers that realize the importance of being with a well-capitalized broker so we would expect this to contribute to account adds this quarter.

I would also like to call your attention to the fact that while some banks disclosed their losses on their own positions, to my knowledge so far we were the only major broker who disclosed our unsecured customer losses and it may well be that some much larger losses will emerge at some banks. Given that some banks were already in the news as shrinking their brokerage operations, I think that in the fullness of time this Swiss event will ultimately benefit our growth ambitions.

Please keep in mind that although our Swiss subsidiaries' net worth is reported in Swiss francs, we maintain our total equity in a basket of 16 currencies that we call the GLOBAL, so that our equity did not increase as a result of this move in the Swiss Franc This diversification mitigates the risk of loss due to any individual currency move, and investors must consider the basket as a whole in US dollar terms when determining the full effect of currency movements.

I will also use this opportunity to mention that we have made a reporting change that relates to how we report the effect of this currency diversification strategy. For now, I will just mention that the value of the GLOBAL in US dollar terms fell by 3% this quarter, negatively affecting our reported results by roughly $150 million. I will let Paul describe how this flows through our reported results.

And now I will review the performance of our brokerage segment.

In 2014, we saw a record year for brokerage in several key measures including commissions, profits, account adds, customer equity and margin balances. Our transparent, low-cost model continues to be IBKR's specialty that our peers cannot replicate and that is allowing us to take market share. In 2014 we added 41 thousand customer accounts and finished the year with 281,000 total accounts, a 17% increase year-over-year, greatly surpassing the single digit growth rates of the industry. We also are picking up momentum as our average account adds increased from 2,500 per month in 2013 to 3,500 in 2014. We have been taking market share from all types of competitors, including the large retail eBrokers, big banks, and smaller, specialty brokers that focus on specific asset classes. This demonstrates our ability to serve a wide variety of account types, from individual professional traders and investors, to institutional clients like hedge funds and wealth advisors.

Customer equity has grown to $56.7 billion, a 24% increase over the prior year. Additionally, since we are attracting more institutional accounts, the average equity per customer account has expanded by 6% this year to an average of $202 thousand and generated precisely $2,000 of commission revenues.

Margin loans increased 25% year over year to $16.9 billion. Our customers also continued to take advantage of the persistently low interest rate environment and our extremely competitive margin lending rates, which currently range from half of one percent to 1.6% depending upon the size of the loan, driving our net interest income to increase 44% year over year. However, I would point out that margin remains at a fairly stable 30% of customer equity.

Because our customers trade very actively, they understand the importance of minimizing their all-in trading costs, which includes not only explicit costs like commissions and exchange fees, but also the implicit costs like price improvement or dis-improvement, market impact and exchange and dark pool rebates. It's the implicit costs that are often hidden from customers, making it difficult to evaluate their broker's all in trading costs. This is why we are so transparent when it comes to our customers' all in trading costs.

Order execution is a highly controversial topic in our industry due to the inherent conflicts of interest that exist between brokers and their customers. Brokers are permitted to internalize customer order flow in their own proprietary dark pools or sell customer order flow to other internalizers for a significant profit. This practice inherently sacrifices execution price quality and negatively impacts customers' results.

Interactive Brokers has spent decades building and optimizing our order routing technology that puts our customers' interests first and we believe that this is the best strategy to grow our business.

To illustrate our performance, Interactive Brokers voluntarily started publishing metrics that quantify our customer's all-in trade expense. I have advocated that regulators require all brokers be held to their fiduciary duty to achieve best execution for their customers and publish the same metrics as a standard industry measure that will allow customers to easily judge and compare their brokers' performance. Brokers will not do this voluntarily as the results would be very telling, so we don't yet have the opportunity to compare our results to our peers. But fortunately, the numbers speak for themselves.

Year to date, our customers paid, on average, a mere 1 basis point all-in cost on over $1 trillion worth of trades for Reg NMS stocks. We further break this down into the explicit and implicit costs I just discussed. This transparency allows current and prospective customers to effectively quantify the true cost of trading on our platform, and many find this a compelling reason to be a customer of IB.

You will find exactly what I am talking about in an ad in today's WSJ on page C2.

While we have yet to receive any indication that regulators plan on making this a uniform disclosure requirement, we do understand that the SEC has been looking closely into how brokers route customer stock orders and they are just about to announce the formation of an Equity Market Structure Advisory Committee, so hopefully we will have some clarity on proposed changes later this year.

This quarter we introduced our new Transaction Cost Analysis, or TCA report that our clients can run to track their execution performance and to optimize their execution strategies. Clients can view the overall volume-weighted average trades and drill down into further detail by trade date, trade price, underlying, execution venue and more. And because the trades hit the report in minutes, our clients can adjust their trading strategies on the fly to achieve optimal results. There are many third party providers of transaction cost analysis that charge for this service, but customers of IB enjoy access to our TCA reporting for free.

Further executing on our vision to build a global investors marketplace, this quarter we had a soft launch of our Investors Marketplace which is accessible via the home page of our website and we will be making a public announcement about it this month. We've been reaching out to current customers like registered advisors and money managers and hedge funds, and to service providers like hedge fund administrators, accounting and law firms, and encouraging them to sign up to the marketplace to advertise their expertise at no cost. The goal of the marketplace is to attract new business to our platform and foster the formation of business relationships and growth amongst our current customers. Further enhancements to the marketplace will allow clients to directly link their IB account to the service provider in an electronic and efficient manner. We already provide this for some relationships, such as financial advisors and their clients or potential clients. We intend to build this up rapidly in the next few months.

In addition to the Investors Market Place we are enthusiastically embarking upon two new projects, both of which are intended to fulfill substantially all the compliance and research needs of registered financial advisors on our platform.

Now I will briefly review the performance of our Market Making segment.

Market making pretax profits of $15 million fell 48% from the year ago and increased from a gain of 7 million in the previous quarter. For the full year, we reported pretax market making profits of $115 million this year compared to $160 million in 2013. The environment for market making improved this quarter, with elevated volatility levels in October and December. Yet competition remains strong, keeping bid/offer spreads on exchange-traded products very narrow.

Volatility levels, as you know, are generally correlated with our market making trading gains. The average VIX this quarter totaled 16, 23% higher than the prior quarter and 12% higher than the year ago quarter. And when comparing 2014 to 2013, the average VIX was roughly unchanged at 14 for both years.

The ratio of actual to implied volatility, which measures our profit captured versus our cost of hedging, was 89% this quarter, compared to 72% in both the prior and year ago quarter.

According to data obtained from the exchanges where we do business, exchange traded options volumes increased 10% in the U.S. and increased 13% globally for the fourth quarter. By comparison, our firm's total option volume increased by 14% and as a result our firm's market share was stable at 10.8% in the U.S., and increased slightly from 8.1% to 8.2% globally.

In the Market Making segment alone, our option volumes increased by 17% during the fourth quarter, though our market share stayed roughly flat at 4.5% in the U.S. and also globally.

While this environment would normally point to a better quarter, this is a probabilistic process that did not work in our favor during the quarter.

I will now turn the call over to our CFO Paul Brody who will review the details of the financials.

Paul Body - CFO

Thank you, Thomas and welcome everyone to the call. As usual I'll first review the summary results and then give segment highlights before we take questions. First I'd like to give a few words on the changes to our presentation of currency effect. We maintain our net worth in GLOBAL, a basket of 16 major currencies. Since we are a U.S based company we are required to report our gains and losses as the U.S dollar value of the GLOBAL increases and decreases over each reporting period.

In the past the effects of this currency diversification we reported as components of first Market Making trading gains and second, other comprehensive income known as OCI.

During the fourth quarter of 2014 we took several steps to make our currency strategy more transparent which we believe will bring more clarity to understanding the results of our operating businesses. First, we transferred nearly all of the currency spot positions held as part of our global composition from the market making unit to the parent holding company IBG LLC.

Second, we changed our accounting presentation to report all currency translation gains and losses related to the GLOBAL as other income instead of trading gains.

And third we changed our accounting presentation to report these gains and losses in the corporate segment instead of the Market Making segment.

As a result of these actions we have isolated the income statement effects of our currency diversification in the corporate segment there by leaving a clearer picture of the core operating results in the Market Making segment. The new reporting method is also reflected in the comparative historical periods contained in our financial statements and these changes had no effect on total consolidated net revenues or on net income. We hope that these changes help to clarify for investors the financial result of our business lines.

Fourth quarter results showed strong increases in our brokerage business and a relatively weak performance in the Market Making segment. As compared to the year ago quarter net revenues this quarter were driven by rising brokerage commissions and net interest income offset by declines in trading gains and currency translation losses.

Full year results showed similar strength in brokerage and lower Market Making profits. I will elaborate on the impact of moving the currency effects from Market Making to corporate segment when I discuss the Market Making and corporate segment results.

Our net pre-tax profits of $506 million represented a return on average equity of 10% and a profit margin of 49%. Our financial statements include 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 known as Other Comprehensive Income or OCI, these are reported in the statement of comprehensive income.

The U.S. dollar strengthened relative to all major currencies during 2014 and as a result the GLOBAL weakened against the U.S. dollar by an unusually large amount. In aggregate the GLOBAL as expressed in U.S. dollar terms declined 3% for the fourth quarter and 6% for the year

OCI is the component of the total GLOBAL effect and adding OCI to net income decreased our reported diluted earnings per share by $0.10 for the quarter and by $0.26 for the full year.

Overall operating metrics for the latest quarter were up across all major product types versus the year ago quarter. Average overall daily trade volume was 1.25 million trades per day up 22% from the fourth quarter of 2013 and within the segments, electronic brokerage metrics showed solid increases in the number of customer accounts and customer equity. Total and cleared customer DARTs, Daily Average Revenue Trades were both up from the year ago quarter and sequentially. Orders from cleared customers who clear and carry their positions and cash with us and contribute more revenue accounted for 91% of total DARTs which is holding steady. Market Making trade volume was up 12% from the prior year quarter, though contract and share volumes were mixed across product types. Other metrics such as higher VIX and higher actual to implied volatility ratio was somewhat favorable for this segment.

Net revenues were $208 million for the fourth quarter, down 17% from the year ago quarter and $1.04 billion for the full year down 3% from the prior year. Trading gains were $51 million for the quarter down 25% from the year ago quarter and please not that for purposes of comparison we have revised the prior periods to account for the change in currency translation effects for all periods.

The comparative figures for currency translation can be found in the other income line item. Commissions and execution fees were $155 million up 25%, net interest income was $100 million up 49% from the fourth quarter of 2013. Brokerage produced 95 million and Market Making 3 million with the remaining small amount in corporate.

Other income which now includes the effects of our currency diversification strategy was a loss of $97 million compared to a loss of 8 million in the prior year quarter. For the full year other income was a loss of $122 million compared to a loss of 10 million in 2013. This primarily reflects the currency losses with smaller contributions from market data revenue and non-Market Making investments.

Non-interest expenses were $134 million, down 37% from the year ago quarter primarily driven by the non-recurrence of large bad debt expenses recognized in 2013. Variable costs and employee compensation expense charges were also down. For the full year non-interest expenses were down 14% and our other fixed operating costs have remain fairly stable. Within the non-interest expense category, execution and clearing expenses were $54 million down 14% from the year ago quarter, despite the higher trading volumes we have been successful at routing orders to lower cost destinations and cutting market data cost.

Compensation expenses were 48 million, a 15% decrease from the year ago quarter. At December 31st our total headcount was 960, an increase of 9% from the prior year-end. Within the operating segments, we will continue to add staff and brokerage and cut back in Market Making.

General and administrative expenses were $16 million, down 80% from the year ago quarter, primarily on the non-recurrence of bad debt expenses related to the Singapore stocks event in 2013. As a percentage of net revenues, total non-interest expenses were 64% and out of this number execution and clearing expense accounted for 26% and compensation expense accounted for 23%. Our fixed expenses were 39% of net revenues.

Pretax income was $74 million, up 91% from the same quarter last year. For the fourth quarter our overall pretax profit margin was 36%, as compared to 16% in the year ago quarter. Brokerage pretax profit margin was 64%, up from 23% in the year ago quarter which is weighed down by the Singapore related loss.

Market Making pretax profit margin was 28%, down from 39% in the year ago quarter. For the full year we earned pretax income of $506 million on net revenues 1.04 billion, up 12% from 2013 and pretax income was 451 million on net revenues of 1.08 billion. For 2014, brokerage represented 84% pretax income from the two segments and Market Making represented 16%.

2014 full year overall pretax profit margin was 49%, up from 42% in 2013. For the full year of 2014, pretax profit margins were 62% in brokerage and 40% in Market Making. Comprehensive diluted earnings per share were $0.02 for the quarter as compared to $0.09 for the fourth quarter of 2013 and on a non-comprehensive basis which includes OCI, diluted earnings per share on net income were $0.12 for the quarter as compared to $0.07 for the same period in 2013. For the full year 2014, comprehensive diluted earnings per share were $0.51 versus $0.67 in 2013 and on a non-comprehensive basis full year diluted earnings per share were $0.77 versus $0.73 in 2013.

Looking at the 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 account for about 76% of our combined balance sheet assets from the two segments.

From the year ago quarter cash and securities segregated for customers rose 12% and secured margin lending to customers rose 25%, while positions in securities held by our Market Maker units were pared back by 12%.

According to our announced policy, regular quarterly dividends will continue to temper the capital employed in the Market Making segment. And in the fourth 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 December 31st, we maintained over $3 billion in excess regulatory capital in our broker dealer companies around the world, of which about 69% is in the Brokerage segment. We continue to carry no long-term debt.

Our consolidated equity capital at December 31, 2014 was 5.18 billion, of which approximately 3 billion was held in Brokerage, 1.9 billion in Market Making and the remaining amount in the Corporate segment.

We'll turn now to the segment results starting with Electronic Brokerage. Customer trade volumes were up across all product types, cleared customer options in futures contract volumes were up 15% and 26% respectively and stock share volume was up 40% from the year-ago quarter. Foreign exchange volume also contributed increasing 42% from the year-ago quarter.

Customer accounts grew by 18% over the total year-end 2013 and by 3% in the latest quarter. Total customer DARTs were 619,000 up 24% from the year-ago and 16% from the third quarter of 2014.

Our cleared customer DARTs which generate direct revenue for the brokerage business were 564,000 up 25% on the year-ago and 16% sequentially. The average number of DARTs per account on an annualized basis was 511 up 6% from the 2013 period and 12% sequentially. Commission revenue rose on a product mix that featured larger average trade sizes for stocks and options and slightly smaller for futures. This resulted in an overall average cleared commission per DART of $4.28 for the quarter up 1% from the year-ago quarter and 2% sequentially.

Customer equity grew to $56.7 billion up 24% from the year-end 2013 and up 3% sequentially. These changes took place during periods in which S&P 500 Index rose 11% over the year and 4% over the last quarter. The source of this growth continues to be a steady inflow of new accounts and customer assets. Our ability to attract larger customers is reflected in the average account equity which grew 6% over the year to $202,000.

Margin debits continue to build steadily increasing 25% over the year. Customer credit balances which increased 22% during 2014 also continued to grow progressively though spread compression especially in certain foreign currencies persists in restraining net interest income.

Higher trade volumes across the product types resulted in top-line revenue from commissions and execution fees of $155 million, an increase of 25% over the year-ago quarter and 17% sequentially. These revenues are spread mainly across options, future, stocks and foreign exchange. Net interest income rose to $95 million up 56% from the fourth quarter of 2013 and 3% sequentially. Low benchmark interest rates which continue to compress the spreads earned by our brokerage unit have been offset by steadily higher customer credit balances in each successive period. And our aggressive lending rates continue to boost customer margin borrowing.

Our fully paid Stock Yield Enhancement Program continues to provide an additional source of interest revenue that's 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 rose to 37% from 29% in the year-ago quarter as our brokerage revenues are increasingly diversified 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 the general rise in overnight interest rates of 25 basis points would produce an additional $54 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 decreased to $38 million for the quarter down 16% on the year-ago quarter and up 3% sequentially, driven by routing orders to lower cost destinations and lower market data costs.

Fixed expenses decreased to $56 million down 52% from the year-ago quarter which contained the Singapore's stock related charges. In 2014 we experienced no unusual losses in the customer segment. Pre-tax income from Electronic Brokerage was $167 million for the fourth quarter up 239% on the year-ago quarter and 8% sequentially. For the full year 2014 pre-tax income from brokerage was 589 million up 49% from the prior year.

Turning to Market Making. Market Making trade volume was up 12% from the prior year quarter though mixed across the product types. Options contract volume was up 9% and stock share volume was up 11% while futures contract volume was down 18%. Trading gains from Market Making for the fourth quarter of 2014 were $51 million down, 25% from the year ago quarter. As I explained earlier, currency translation effects have been removed from these results.

Pretax income from Market Making was $15 million, down 48% from the year ago quarter. For the full year 2014 pretax income from Market Making was $115 million, down 28% from the prior year. Execution and clearing fees expenses decreased to 15 million for the quarter, down 10% from the year ago quarter and fixed expenses decreased to $23 million, down 22% from the year ago quarter as we continue our aggressive expense management in this segment.

Turning to the corporate segment, which we will now begin to report because it's a more meaningful element given the currency impact, the earnings reported for the corporate segment now do reflect the effects of our currency diversification strategy.

Our overall equity as measured in U.S. dollars was decreased by the strengthening in the U.S. dollar against all other major currencies. More specifically we estimate the overall loss from our strategy of carrying our equity in proportion to the basket of currencies we call the GLOBAL to be about $293 million for 2014. Because $107 million of this loss is reported as other comprehensive income, this leaves a loss of about $186 million to be included in reported earnings. This loss is a primary component of other income in the corporate segment.

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

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Rich Repetto from Sandler O'Neill. Your question please.

Rich Repetto - Sandler O'Neill

Yes, good evening and congratulations again on the records and brokerage customer equity in trading as well as accounts. So Thomas, I guess the question is, you've never given us a feel for how much -- whether it's FX in brokerage, how much is FX versus stocks versus options, and I guess now given this environment, it sort of comes to everybody's attention. So I was just wondering is there any ballpark feel? And then also a follow up question on the FX issue. What leverage did you offer, and when you talk about possible recourse or you used some words to that effect, could you tell us what areas -- how much could you reasonably expect is 25% recovery rate over time? I know you mentioned over time more realistic or what number should we be thinking about?

Thomas Peterffy - Chairman and CEO

Personally Rich, I wish you'd asked one question at a time. So you have to be aware, we never discuss this, but the fact is that roughly three quarters of the forex loss, customer loss comes from Merc futures. Chicago Merc futures on the Swiss versus the Euro. We were following the exchange margin unfortunately and the exchange margin was only 1%. So now your next question is -- so I don't think that -- you see that's kind of business which is future's -- regulated future's business is not included the way we look at forex revenue, because we look at futures as futures, no matter whether they are ex futures or equity future's or currency futures, they are futures.

Rich Repetto - Sandler O'Neill

Now I understand what you're saying.

Thomas Peterffy - Chairman and CEO

So it's not really very meaningful to look at these loss against our forex income, all right? Now as to our chances of correcting on this loss, it's awfully hard to say. The fact is that none of the -- big accounts, none of them are in the United States and at this point in time I'm not even sure of what the laws are in the five different countries where -- I mean one country is Spain where I think we can prevail easily. But Hong Kong is probably going to work out but then the three other countries where I'm not sure.

Rich Repetto - Sandler O'Neill

Okay understood and just I guess follow up would be…

Thomas Peterffy - Chairman and CEO

And also sorry, just one more thing to say about that. We also do not know as to the financial viability of these customers. So even if we may be prevailing in the course, we do not know if they actually have the money that we can freeze.

Rich Repetto - Sandler O'Neill

Got it. So recoveries are almost impossible to forecast and it is what I'm taking. And I guess, since that was a multiple question, I'll just ask one more and that will be it. Is -- I guess when you look at this quarter, it was -- fourth quarter, there was higher volatility and I guess on the brokerage side was there anything that you saw different, given the higher volatility and given that your customer base now was getting bigger average size accounts, more institutional like. Was there anything that surprised you in regards to growth, given that this -- we got our good strong volatile quarter in a while.

Thomas Peterffy - Chairman and CEO

It's been very steady. So the growth -- there has been strong growth but it's been very steady. So I have seen that we can basically extend it for the future along a straight line for at least the next several quarters.

Operator

Our next question comes from the line of Niamh Alexander from KBW. Your question please.

Niamh Alexander - KBW

Thomas, I think it's a little surprising I guess that it was in the futures area. But when the leverage is – I guess a little bit more in the forex area, especially in the U.S and perhaps it explains it. But to go forward, I understand what you were saying, it was instantaneous, even though you close people out in real time, this is instantaneous. But have you made a decision to require a little bit more collateral than the exchange standards because some other futures commissions merchant do it. Because essentially you're on the hook for customer losses in that model. So are you looking at maybe upping the margin requirements little bit?

Thomas Peterffy - Chairman and CEO

Yes we are. We continuously look at this. There are many, many futures where we charge more than the exchange minimum. Basically our formula says, to charge the higher of three standard deviations of daily moves or the exchange minimum. And it just so happens that three standard deviation…

Niamh Alexander - KBW

Yes, the currency that was pegged.

Thomas Peterffy - Chairman and CEO

The euro was infinitesimal. So it was just a -- I can say anything but it was a huge screw up. At the time that they instituted the peg, we should have made a big mark in our book and assign somebody to look out this regularly.

Niamh Alexander - KBW

So where there are the other pegs in place and with currencies diverging, are GLOBAL banks diverging across the road? Is it fair to assume that you are taking a look at where there might be other pegs and you are currently kind of applying a similar margins scenario?

Thomas Peterffy - Chairman and CEO

Is there from now, but if any other any currency gets pegged because we know that no peg will last forever. Whenever any currency gets peg we surely are going to be on top of it.

Niamh Alexander - KBW

Okay. And then if we could, and I know Richard asked earlier, but it would be a great time maybe just to get a little bit more information on your forex business. Because it's hard to even know for example what the average daily value traded is. Just to put in context so it's may be revenue opportunity or something or how much of your business is in that forex business. Now not the futures, just forex. And then with that as well, what kind of average leverage do you typically extend for that product.

Thomas Peterffy - Chairman and CEO

So the major currencies we attach 2.5% so 40:1. And the forex commissions coming from cash forex. Now I'm not talking about daily futures, which is I said before we look at the future business. Cash forex commissions make up roughly 9% of our commission income.

Niamh Alexander - KBW

9%, okay, that's helpful. Thank you. And then just a question if I could ask and I'll hum back, just your thoughts on -- given that the magnitude of the moves that have been -- some of the losses that have been announced and then you've indicated just based on what you've seen that you expect there might be more customer losses, just not officially announced or anything that on the institutional side. You think this is going to maybe drive some regulatory change and increase the margin requirements or some force kind of hands -- we've heard -- we've seen the NFA, the futures association in the U.S. kind of say, they're going to revisit margin requirements, but a lot of the higher leverage is allowed overseas. So do you think this is going to drive some change and maybe capping the leverage a bit?

Thomas Peterffy - Chairman and CEO

So you see the FINRA proposed or maybe the CFTC, I'm getting a little bit confused they wanted a 10:1 leverage, and the industry -- and that's only for brokers, because of course banks come under different regulations. So the way we view this was that if that put us to 10:1 and the banks remain at 100:1 or wherever they are, then we would basically be out of business. So we were trying to continue to press them to allow us to do this thing.

But I really think that this event -- and I'm sure that big bank customer losses will surface, because as you know, you cannot match the wining customers against the losing customers. The winning customers get paid under losing customers to the extent they lost more than the money they had, the bank will have to pay. So I'm sure that there will be big amounts surfacing and I'm sure that that will have an impact on both Europe and U.S. banking regulations.

Operator

Thank you. Your next question comes from the line of Mac Sykes from Gabelli. Your question please.

Mac Sykes - Gabelli

Thank you for the accounting changes it's very helpful. On a more positive note, if you can give us some commentary on the opportunity in Asia again, with respect to the opening of the Chinese listings or maybe if you could talk about whether this material cow is for trading or asset gathering. Thanks.

Thomas Peterffy - Chairman and CEO

I don’t know if we probably sized it enough, but we have been on this link servicing customers both ways, actually not both ways, from outside China to inside China and we had a substantial portion of that business, but the business itself is really a disappointment, because there is not much happening along these lines and now that the Chinese are cracking down on the local brokers, I don’t expect this business coming out of China to increase and -- so I mean -- it’s a disappointment to -- just to summarize this in one word.

Mac Sykes - Gabelli

That’s okay.

Thomas Peterffy - Chairman and CEO

But our Chinese and Hong Kong and generally forex business is continuing to ramp up at a faster pace than any of our other geographies.

Mac Sykes - Gabelli

Okay. And then there have been some rumblings on the U.S. side in terms of corporate tax structure reform and maybe foreign repatriation. Have you been following it at all and is there any implications that could be a read through for your business structure or -- both domestically or foreign.

Thomas Peterffy - Chairman and CEO

I’ll be honest about this. I have not been following this. I never follow the tax conversations up until they are actually put into effect.

Operator

Thank you. Our next question comes from the line of Chris Harris from Wells Fargo Securities. Your question please.

Chris Harris - Wells Fargo Securities

So first question is about growth at the broker. Clearly a very strong year for you guys there, best year for account growth since 2011. You guys have identified the five customer segments for us and just wondering if you could expand on that a little bit. Kind of curious to see if you can parse out which segments are driving the majority of that growth, or if it's really just been across the broad broad-based, everything really doing well?

Thomas Peterffy - Chairman and CEO

As I have said, geographically the Far East is stronger than the rest. Europe is possibly the weakest as far as which segment grows the fastest. Its financial advisors -- registered financial advisors and introducing brokers, but also hedge funds and maybe even prop traders. So the only segment that’s shrinking -- it’s not really shrinking but it’s growing slower than the overall business is the individual investors. And I think that’s just as well because we would like to grow our business -- overall business faster than we want to grow our customer service center. So to the extent that we get individual customers by our intermediaries, who are financially more sophisticated and deal with the handholding of those individual customers, I think that is our -- that is that all we want to go and I think the story bears that out, the number is very tough.

Chris Harris - Wells Fargo Securities

With respect to the hedge funds, kind of curious, away from the big banks, who are your primary competitors there as it relates to prime brokerage? And maybe not specific names, but is it fairly a deep competitive bench or is it really just the big banks or just a few select smaller niche players like you?

Thomas Peterffy - Chairman and CEO

It is just the big banks. We do not see hedge funds. There are some sub primes who basically execute for hedge funds and give it up to banks. So some were recently purchased by Wells Fargo, youre firm, right. So you know about that. But generally it's just the big banks.

Chris Harris - Wells Fargo Securities

That’s what I thought. I just want to make sure I wasn’t missing anything. A few numbers questions then if I could Paul, perhaps for you. I know you guys give a lot of information in here but I’m still not quite sure if I can reconcile exactly what your earnings were this quarter, just kind of excluding all of the FX. I know last quarter was $0.25. I think you guys gave that on the call. Do you happen to have that number handy just as a frame of reference?

Paul Brody

Sorry, which number are you referring to Chris?

Chris Harris - Wells Fargo Securities

Just the earnings number, excluding kind of everything FX related. So kind of like a core earnings number if you will?

Paul Brody

Yes, the numbers that we publish and release itself are all adjusted for that and what you see is the effects of the currency showing up in other income and then in Corporate segment. So other income on the overall income statement and in the corporate segment and the segment reporting and it's removed from Market Making. So you are already seeing the impact to that. We didn’t publish an equivalent EPS, but there will be more information in the 10-K and in the following 10-Qs to come because the competitive time periods will all be in there. They all will be adjusted accordingly.

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

It's very difficult to project the -- what that per share equivalent would be of the un-impacted earnings because the tax rates are not linear.

<u>Chris Harris</u> - Wells Fargo Securities

Right. One other numbers question really quick. In the restated Corporate segment, the net revenues that you have there, I know all the FX resides there now. Is there anything else in that revenue number and I'm assuming there is. And so can you let me know what exactly the revenue impacts from FX was in the quarter?

Paul Brody

It was the overwhelming majority of the amount in Corporate. There is a little bits of other things and we hold certain relatively small investments and the overwhelming amount was related to the FX change in accounting presentation.

Operator

Our next question comes from the line of Rob Koehn from Ivy Lane Capital. Your question please?

<u>Rob Koehn</u> - Ivy Lane Capital

I wanted go back to a comment that you made about three quarters ago after first quarter earnings. And you mentioned that 60% of your new accounts at that point were coming from outside the United States and countries where you had only scratched the surface. Is there an update on that number?

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

It's fairly steady. It may have changed by 1% either way, but I don't think by any more than that.

<u>Rob Koehn</u> - Ivy Lane Capital

And in the same vein, you mentioned it 25% or one quarter of your new accounts were from client referrals. Is that something that is tracking similarly as well?

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

I tell you frankly, I haven't looked at that lately. So I don't know. But I know that the bulk of our -- actually I do look at it, but I haven't broken it out in percentagewise. As a matter of fact, yes. So I think -- I vaguely recall 9,800. So given 40,000 this year... So 25% is right.

<u>Rob Koehn</u> - Ivy Lane Capital

Okay, and those are basically situations where you are paying a referral fee?

Thomas Peterffy - Chairman and CEO

No, in the minority of the cases we pay a referral fee. In the majority of cases, it's just people saying to each other, I have an account at Interactive Brokers and I think you should try.

Rob Koehn - Ivy Lane Capital

Okay. And then I guess further on the account growth question, and one of the other analysts sort of touched on it, but -- so in 2012 you grew about 10.8% in terms of new accounts and then it was 14% in '13 and 17.5% in '14. Is that a trend that -- it's kind of an accelerating trend? Is that a trend that you think is pretty stable or how do you think about the account growth trend going forward?

Thomas Peterffy - Chairman and CEO

All I can tell you is that I am surprised that it's not ramping up faster. So I think that next year will be over 20%. That's what I think.

Rob Koehn - Ivy Lane Capital

You think new accounts will be over 20% next year.

Thomas Peterffy - Chairman and CEO

Right.

Rob Koehn - Ivy Lane Capital

Okay. That's all. And that goes to my other question which was, you said something earlier in the call about growing in a straight line or running it out for the -- I can't recall what you said. So could you repeat your thought on that?

Thomas Peterffy - Chairman and CEO

I would tell I don't remember what the question was.

Rob Koehn - Ivy Lane Capital

And the last question and then I'll. So you are on TV this morning and it's got to be frustrating for you. I think as a shareholders it's frustrating for me, when you are on CNBC and the anchors themselves seem do not really know much difference between IB and FXCM. How does that go to your thought on branding and kind of just awareness?

Thomas Peterffy - Chairman and CEO

We have started an effort to convince the Bloomberg and Wall St Journal et cetera to show our overall numbers, and not just the publically held shares.

Rob Koehn - Ivy Lane Capital

Okay. And I guess last, there is really nothing new on the market maker other than you are not investing and head count is coming down, but just the scalability of the business, I mean you sit here and look at 2014 pretax margin, I guess -- in the fourth quarter. So a clean number with no one-time items, you are up 600 basis points in pretax margin on an adjusted basis, adjusting out the one time item last year. Now that's almost like a software company. So how does -- how do you get that to shine through and how do you -- I think a lot of shareholders would love to see the market maker wound down. I know there are challenges; what do you do with the capital, you're frustrated with. How do you think about it over the next year or two?

Thomas Peterffy - Chairman and CEO

We are going to maintain the market maker and we are going to do our best to make it profitable because I think it's the last man. We could be the last man standing and so, as far as I can tell right now, we are going to continue with the effort, even though maybe on a lower scale.

Rob Koehn - Ivy Lane Capital

And do you do internal business plans for brokerage profit I know? It's harder in the market maker but do you have an internal kind of goal, plan for the brokerage firm?

Thomas Peterffy - Chairman and CEO

Sure. Yes, we have visions of fantastic things, but not --.

Rob Koehn - Ivy Lane Capital

Okay, I'm talking in terms of employees, so.

Thomas Peterffy - Chairman and CEO

Okay.

Rob Koehn - Ivy Lane Capital

I would assume they are in line with the things that you're telling us.

Thomas Peterffy - Chairman and CEO

I do not like budgets, because the budget, if you don't meet the budget, it doesn't do any good and if you meet the budget, then it slows you down because you say well I'm at my budget, so I don't need to do any better. So, I think that budgets don't help to maximize your business.

Operator

Thank you, our next question comes from the line of Chris Allen from Evercore. Your question please.

Chris Allen - Evercore

A couple of kind of clean up questions, Thomas, could you provide any color as you what type of customers, the five that incurred the majority of FX loss, were that they were hedge funds or prop traders or?

Thomas Peterffy - Chairman and CEO

Of the five, one was an organization and four were individuals.

Chris Allen - Evercore

Okay, and then just going back to last year the Singapore loss, any update on that in terms of time frame of recovery, any progress in that front?

Thomas Peterffy - Chairman and CEO

That's rolling along and progressing well. The next major hurdle will take place in March, and so far we won every court proceeding and so the large court appearance will take place in March and we'll see. If not that time, then we will be able to try to go after the individuals and collect whatever we can.

Chris Allen - Evercore

Got it, and then just on the numbers, I think you'd -- Paul you mentioned that employees were up 9% period end, year-over-year. Compensation has been flat in the first half of this year to down in the back half. Is that due to incentive comp or shift in the types of employees you're hiring? Any color on that would be great?

Paul Brody

It's mostly the incentive comp and there are always some changes going on with the stock incentive plan but yes, it's primarily the balanced compensation.

Operator

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

Deborah Belevan - Director of IR

Thank you everyone, for participating today. And just a reminder, this call is going to be available for replay on our website and we'll also be posting a clean version of the transcript on our Web site tomorrow. Thanks again for your time and have a great evening.

Operator

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