

INTERACTIVE BROKERS LLC  
(SEC I.D. No. 8-47257)

STATEMENT OF FINANCIAL CONDITION  
AS OF JUNE 30, 2019  
(UNAUDITED)

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Interactive Brokers LLC  
One Pickwick Plaza  
Greenwich, Connecticut 06830  
Member, Securities Investor Protection Corporation ("SIPC")

# INTERACTIVE BROKERS LLC

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# INTERACTIVE BROKERS LLC

## Unaudited Statement of Financial Condition

As of June 30, 2019

(Dollars in millions)

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### Assets

Cash and cash equivalents	\$	2,299
Cash - segregated for regulatory purposes		2,428
Securities - segregated for regulatory purposes		20,273
Securities borrowed		3,662
Securities purchased under agreements to resell		1,302
Financial instruments owned, at fair value:		
Financial instruments owned		568
Financial instruments owned and pledged as collateral		38
Total financial instruments owned, at fair value		<u>606</u>
Receivables		
Customers (net of allowance for doubtful accounts of \$69)		24,299
Brokers, dealers and clearing organizations		564
Affiliates		94
Interest		162
Total receivables		<u>25,119</u>
Other assets		<u>46</u>
Total assets	\$	<u>55,735</u>

### Liabilities and member's equity

#### Liabilities

Short-term borrowings	\$	14
Payables to customers		45,811
Securities loaned		3,694
Securities sold under agreements to repurchase		15
Financial instruments sold, but not yet purchased, at fair value		12
Other payables		
Brokers, dealers and clearing organizations		275
Accounts payable, accrued expenses and other liabilities		70
Affiliates		64
Interest		39
Total other payables		<u>448</u>
Total liabilities		49,994
Members' capital		5,741
Total liabilities and members' capital	\$	<u>55,735</u>

See accompanying notes to the statement of financial condition.

# INTERACTIVE BROKERS LLC

## Notes to Unaudited Statement of Financial Condition

As of June 30, 2019

*(Dollars in millions, except share data, unless otherwise noted)*

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### 1. Organization and Nature of Business

Interactive Brokers LLC (the “Company”), a Connecticut limited liability company, is a broker-dealer registered under the Securities Exchange Act of 1934 (the “Exchange Act”) with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”) and various securities and commodities exchanges. The Company is also a member of the National Futures Association (“NFA”) and is registered with Commodity Futures Trading Commission (“CFTC”) as a Futures Commission Merchant and a Foreign Exchange Dealer.

The Company executes and clears securities and commodities transactions for customers. Certain transactions are cleared through other clearing brokers. Accordingly, the Company carries securities accounts for customers and is subject to the requirements of Rule 15c3-3 under the Exchange Act (the “Customer Protection Rule”) pertaining to the possession or control of customer-owned assets and reserve requirements. The Company carries customer commodities accounts and is subject to the segregation requirements of the Commodity Exchange Act. The Company is subject to the requirements of Rule 15c3-1 under the Exchange Act (the “Uniform Net Capital Rule”) and the CFTC’s minimum financial requirements (Regulations 1.17 and 5.7).

The Company is 99.9% owned by IBG LLC, (the “Parent”), a Connecticut limited liability company. The Company has several affiliates which are also majority owned by the Parent (see Note 7). The Parent and its subsidiaries, including the Company are consolidated into Interactive Brokers Group, Inc. (“IBG, Inc.”), a publicly traded U.S. corporation.

### 2. Significant Accounting Policies

#### *Basis of Presentation*

This statement of financial condition is presented in U.S. dollars and has been prepared pursuant to accounting standards generally accepted in the U.S. (“U.S. GAAP”).

#### *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the statement of financial condition and accompanying notes. These estimates and assumptions are based on judgment and the best available information at the time. Therefore, actual results could differ materially from those estimates. Such estimates include the allowance for doubtful accounts, compensation accruals, and contingency reserves.

#### *Fair Value*

Substantially all of the Company’s assets and liabilities, including financial instruments, are carried at fair value based on published market prices and are marked to market, or are assets and liabilities which are short-term in nature and are carried at amounts that approximate fair value.

# INTERACTIVE BROKERS LLC

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The Company applies the fair value hierarchy in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820, “Fair Value Measurement” (“ASC Topic 820”), to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The three levels of the fair value hierarchy are:

- Level 1      Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
  
- Level 2      Quoted prices for similar assets in an active market, quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
  
- Level 3      Prices or valuations that require inputs that are both significant to fair value measurement and unobservable.

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are generally classified as Level 1 of the fair value hierarchy. The Company’s Level 1 financial instruments, which are valued using quoted market prices as published by exchanges and clearing houses or otherwise broadly distributed in active markets, include listed stocks, options and U.S. government securities which are included in securities – segregated for regulatory purposes and in financial instruments owned and pledged as collateral in the statement of financial condition.

Currency forward contracts are valued using broadly distributed bank and broker prices, and are classified as Level 2 of the fair value hierarchy since inputs to their valuation can be generally corroborated by market data. Other securities that are not traded in active markets are also classified as Level 2 of the fair value hierarchy. Level 3 financial instruments are comprised of securities that have been delisted or otherwise are no longer tradeable in active markets and have been valued by the Company based on internal estimates.

### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of deposits with banks and all highly liquid investments, with maturities of three months or less, that are not segregated and deposited for regulatory purposes or to meet margin requirements at clearing houses.

### ***Cash and Securities — Segregated for Regulatory Purposes***

As a result of customer activities, the Company is obligated by rules mandated by its primary regulators to segregate or set aside cash or qualified securities to satisfy such regulations, which have been promulgated to protect customer assets. At June 30, 2019, securities segregated for regulatory purposes consisted of U.S. government securities of \$3.8 billion and securities purchased under agreements to resell of \$16.5 billion, which amounts approximate fair value.

# **INTERACTIVE BROKERS LLC**

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### ***Securities Borrowed and Securities Loaned***

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to provide the counterparties with collateral, which may be in the form of cash or other securities. With respect to securities loaned, the Company receives collateral, which may be in the form of cash or other securities in an amount generally in excess of the fair value of the securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually. The Company's policy is to net, in the statement of financial condition, securities borrowed and securities loaned entered into with the same counterparty that meet the offsetting requirements prescribed in FASB ASC Topic 210-20, "Balance Sheet – Offsetting" ("ASC Topic 210-20").

### ***Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase***

Securities purchased under agreements to resell and securities sold under agreements to repurchase, which are reported as collateralized financing transactions, are recorded at contract value, which approximates fair value. To ensure that the fair value of the underlying collateral remains sufficient, the collateral is valued daily with additional collateral obtained or excess collateral returned, as permitted under contractual provisions. The Company's policy is to net, in the statement of financial condition, securities purchased under agreements to resell transactions and securities sold under agreements to repurchase transactions entered into with the same counterparty that meet the offsetting requirements prescribed in ASC Topic 210-20.

### ***Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased, at Fair Value***

Financial instrument transactions are accounted for on a trade date basis. Financial instruments owned and financial instruments sold, but not yet purchased are stated at fair value based upon quoted market prices. The Company's financial instruments pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the financial instruments are reported as financial instruments owned and pledged as collateral in the statement of financial condition.

The Company also enters into currency forward contracts. These transactions, which are also accounted for on a trade date basis, are agreements to exchange a fixed amount of one currency for a specified amount of a second currency at completion of the currency forward contract term. Unrealized mark-to-market gains and losses on currency forward contracts are included in financial instruments owned, at fair value or financial instruments sold, but not yet purchased, at fair value in the statement of financial condition.

### ***Currency Spot and Forward Contracts***

The Company enters into currency swap contracts for customer funds denominated in foreign currencies to obtain U.S. dollars, with a locked-in rate of return, for the purpose of making bank deposits denominated in U.S. dollars to satisfy regulatory segregation requirements and on behalf of

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its affiliates. A currency swap contract is an agreement to exchange a fixed amount of one currency for a specified amount of a second currency at the outset and exchange back a specified amount at completion of the swap term (i.e., the forward contract). Interest rate differences, between currencies, are captured in the contractual swap rates. The Company also executes currency spot contracts on behalf of its customers and affiliates. These currency spot and forward transactions are recorded on a trade date basis at fair value based on distributed bank and broker prices. Included in receivables from and payables to brokers, dealers and clearing organizations are \$3 and \$0, respectively, which represent unsettled amounts of currency spot and forward contracts at June 30, 2019.

### ***Customer Receivables and Payables***

Customer securities transactions are recorded on a settlement date basis and customer commodities transactions are recorded on a trade date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including futures contracts transacted on behalf of customers. Securities owned by customers, including those that collateralize margin loans or other similar transactions, are not reported in the statement of financial condition.

Receivables from institutional non-cleared customers and payables for execution and clearing fees are included in other assets and accounts payable, accrued expenses and other liabilities, respectively, in the statement of financial condition.

### ***Receivables from and Payables to Brokers, Dealers and Clearing Organizations***

Receivables from and payables to brokers, dealers and clearing organizations include net receivables and payables from unsettled trades, including amounts related to futures and options on futures contracts executed on behalf of customers, amounts receivable for securities not delivered by the Company to the purchaser by the settlement date (“fails to deliver”) and cash deposits. Payables to brokers, dealers and clearing organizations also include amounts payable for securities not received by the Company from a seller by the settlement date (“fails to receive”).

### ***Property and Equipment***

Property and equipment, which are included in other assets in the statement of financial condition, consist of leasehold improvements, computer equipment, computer software, and office furniture and equipment.

Property and equipment are recorded at historical cost, less accumulated depreciation and amortization. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over the estimated useful lives of the assets, while leasehold improvements are amortized over the lesser of the estimated economic useful life of the asset or the term of the lease. Computer equipment is depreciated over three to five years and office furniture and equipment are depreciated over five to seven years. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the statement of financial condition. Fully depreciated (or amortized) assets are retired periodically throughout the year.

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### ***Leases***

On January 1, 2019, the Company adopted FASB ASC Topic 842, “Leases,” (“ASC Topic 842”) which requires that a lessee recognize in the statement of financial condition a lease liability and a corresponding right-of-use asset, including for those leases that the Company currently classifies as operating leases. The right-of-use asset and the lease liability were initially measured using the present value of the remaining lease payments. ASC Topic 842 was implemented using a modified retrospective approach which resulted in no cumulative-effect adjustment in the opening balance of retained earnings as of January 1, 2019. As permitted under ASC Topic 842, the Company adopted the following practical expedients: (1) not to reassess whether an expired or non-lease contract that commenced before January 1, 2019 contained an embedded lease, (2) not to reassess the classification of existing leases, (3) not to determine whether initial direct costs related to existing leases should be capitalized under ASC Topic 842, and (4) not to separate lease and non-lease components.

The Company reviews all relevant contracts to determine if the contract contains a lease at its inception date. A contract contains a lease if the contract conveys to the company the right to control the use of an underlying asset for a period of time in exchange for consideration. If the Company determines that a contract contains a lease, it recognizes, in the statement of financial condition, a lease liability and a corresponding right-of-use asset on the commencement date of the lease. The lease liability is initially measured at the present value of the future lease payments over the lease term using the rate implicit in the lease or, if not readily determinable, the Company’s secured incremental borrowing rate. An operating lease right-of-use asset is initially measured at the value of the lease liability minus any lease incentives and initial direct costs incurred plus any prepaid rent.

The Company’s leases are classified as operating leases and consist of real estate leases for office space and data centers. Each lease liability is measured using the Company’s secured incremental borrowing rate, which is based on an internally developed yield curve using interest rates of third parties’ corporate debt issued with a similar risk profile as the Company and a duration similar to the lease term. The Company’s leases have remaining terms of one to eight years, some of which include options to extend the lease term, and some of which include options to terminate the lease upon notice. The Company considers these options when determining the lease term used to calculate the right-of-use asset and the lease liability when the Company is reasonably certain it will exercise such option.

The Company’s operating leases contain both lease components and non-lease components. Non-lease components are distinct elements of a contract that are not related to securing the use of the underlying assets, such as common area maintenance and other management costs. The Company elected to measure the lease liability by combining the lease and non-lease components as a single lease component. As such, the Company includes the fixed payments and any payments that depend on a rate or index that relate to the lease and non-lease components in the measurement of the lease liability. Some of the non-lease components are variable in nature and not based on an index or rate, and as a result, are not included in the measurement of the right-of-use asset or lease liability.

### ***Stock-Based Compensation***

The Company follows FASB ASC Topic 718, “Compensation – Stock Compensation” (“ASC Topic 718”), to account for its employees’ participation in IBG, Inc.’s stock-based compensation plans. ASC

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Topic 718 requires all share-based payments to employees to be recognized in the statement of financial condition using a fair value-based method. Grants, which are denominated in U.S. dollars, are communicated to employees in the year of grant, thereby establishing the fair value of each grant.

Awards granted under the stock-based compensation plans are subject to the plans' post-employment provisions in the event an employee ceases employment with the Company. The plans provide that employees who discontinue employment with the Company without cause and continue to meet the terms of the plans' post-employment provisions will be eligible to earn 50% of previously granted but not yet earned awards, unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of previously granted but not yet earned awards.

### **Recently Issued Accounting Pronouncements**

Following is a summary of recently issued FASB Accounting Standards Updates ("ASUs") that may affect the Company's statement of financial condition:

ASU	Affects	Status
ASU 2016-13	<i>Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.</i>	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2018-13	<i>Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.</i>	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2018-15	<i>Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.</i>	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2019-04	Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2019-05	<i>Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief.</i>	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.

Adoption of the ASUs that became effective during 2019, prior to the issuance of the Company's statement of financial condition, had no material effect on the statement of financial condition, except as described in the notes to the statement of financial condition.

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### 3. Trading Activities and Related Risks

The Company's trading activities are comprised of providing securities brokerage services. Trading activities expose the Company to market and credit risks. These risks are managed in accordance with established risk management policies and procedures. To accomplish this, management has established a risk management process that includes:

- a regular review of the risk management process by executive management as part of its oversight role;
- defined risk management policies and procedures supported by a rigorous analytic framework; and
- articulated risk tolerance levels as defined by executive management that are regularly reviewed to ensure that the Company's risk-taking is consistent with its business strategy, its capital structure, and current and anticipated market conditions.

#### *Market Risk*

The Company is exposed to various market risks. Exposures to market risks arise from foreign currency exchange rate fluctuations and changes in interest rates. The following discussion describes the types of market risk faced:

##### *Currency Risk*

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. The Company manages this risk using spot (i.e., cash) currency transactions and currency forward contracts.

##### *Interest Rate Risk*

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is exposed to interest rate risk on cash and margin balances and fixed income securities. These risks are managed through investment policies and by entering into interest rate futures contracts, as needed.

##### *Credit Risk*

The Company is exposed to risk of loss if a customer, counterparty or issuer fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose the Company to default risk. The Company has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

The Company's credit risk is limited as contracts entered into are settled directly at securities and commodities clearing houses or are settled through member firms and banks with substantial financial and operational resources. Over-the-counter transactions, such as securities lending, are marked to

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market daily and are conducted with counterparties that have undergone a thorough credit review. The Company seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

In the normal course of business, the Company executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities which exposes the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers or counterparties. Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities fails to receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities fails to receive, the Company may purchase the underlying security in the market and seek reimbursement for any losses from the counterparty.

For cash management purposes, the Company enters into short-term securities purchased under agreements to resell and securities sold under agreements to repurchase transactions (“repos”) in addition to securities borrowing and lending arrangements, all of which may result in credit exposure in the event the counterparty to a transaction is unable to fulfill its contractual obligations. Repos are collateralized by securities with a market value in excess of the obligation under the contract. Similarly, securities lending agreements are collateralized by deposits of cash or securities. The Company attempts to minimize credit risk associated with these activities by monitoring collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Company as permitted under contractual provisions.

### ***Concentrations of Credit Risk***

The Company's exposure to credit risk associated with its brokerage and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of June 30, 2019, the Company did not have any material concentrations of credit risk outside the ordinary course of business.

### ***Off-Balance Sheet Risks***

The Company may be exposed to a risk of loss not reflected in the statement of financial condition to settle futures and certain over-the-counter contracts at contracted prices, which may require repurchase or sale of the underlying products in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk as the Company's cost to liquidate such contracts may exceed the amounts reported in the Company's statement of financial condition.

# INTERACTIVE BROKERS LLC

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### 4. Financial Assets and Financial Liabilities

#### *Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The following tables set forth, by level within the fair value hierarchy (see Note 2), financial assets and liabilities, measured at fair value on a recurring basis as of June 30, 2019. As required by ASC Topic 820, financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the respective fair value measurement.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Securities segregated for regulatory purposes	\$ 3,756	\$ -	\$ -	\$ 3,756
Financial instruments owned, at fair value				
Options	563	-	-	563
U.S. government securities	38	-	-	38
Currency forward contracts	-	5	-	5
	<u>\$ 4,357</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 4,362</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial instruments sold, but not yet purchased, at fair value				
Options	\$ 10	\$ -	\$ -	\$ 10
Currency forward contracts	-	2	-	2
	<u>\$ 10</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 12</u>

There were no transfers of financial assets and financial liabilities between Levels 1 and 2 during the six month period ended June 30, 2019. The Company has no Level 3 assets.

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### *Financial Assets and Financial Liabilities Not Measured at Fair Value*

The following table represents the carrying value, fair value and fair value hierarchy category of certain financial assets and liabilities that are not recorded at fair value in the Company's statement of financial condition as of June 30, 2019. The following table excludes all non-financial assets and liabilities.

	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Financial assets, not measured at fair value:					
Cash and cash equivalents	\$ 2,299	\$ 2,299	\$ 2,299	\$ -	\$ -
Cash - segregated for regulatory purposes	2,428	2,428	2,428	-	-
Securities - segregated for regulatory purposes	16,517	16,517	-	16,517	-
Securities borrowed	3,662	3,662	-	3,662	-
Securities purchased under agreements to resell	1,302	1,302	-	1,302	-
Receivables from customers	24,299	24,299	-	24,299	-
Receivables from brokers, dealers and clearing organizations	564	564	-	564	-
Receivables from affiliates	94	94	-	94	-
Interest receivable	162	162	-	162	-
Other assets	2	2	-	2	-
Total financial assets, not measured at fair value:	<u>\$ 51,329</u>	<u>\$ 51,329</u>	<u>\$ 4,727</u>	<u>\$ 46,602</u>	<u>\$ -</u>
Financial liabilities, not measured at fair value:					
Short-term borrowings	\$ 14	\$ 14	\$ -	\$ 14	\$ -
Payables to customers	45,811	45,811	-	45,811	-
Securities loaned	3,694	3,694	-	3,694	-
Securities sold under agreements to repurchase	15	15	-	15	-
Payables to brokers, dealers and clearing organizations	275	275	-	275	-
Payables to affiliates	64	64	-	64	-
Interest payable	39	39	-	39	-
Total financial liabilities, not measured at fair value:	<u>\$ 49,912</u>	<u>\$ 49,912</u>	<u>\$ -</u>	<u>\$ 49,912</u>	<u>\$ -</u>

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### *Netting of Financial Assets and Financial Liabilities*

The Company's policy is to net securities borrowed and securities loaned, and securities purchased under agreements to resell and securities sold under agreements to repurchase that meet the offsetting requirements prescribed in ASC Topic 210-20. In the tables below, the amounts of financial instruments that are not offset in the statement of financial condition, but could be netted against cash or financial instruments with specific counterparties under master netting agreements, according to the terms of the agreements, including clearing houses or over the counter currency forward contract counterparties, are presented to provide financial statement readers with the Company's net payable or receivable with counterparties for these financial instruments.

The following table sets forth the netting of financial assets and of financial liabilities as of June 30, 2019:

	<b>Gross Amounts of Financial Assets and Liabilities Recognized</b>	<b>Amounts Offset in the Statement of Financial Condition <sup>2</sup></b>	<b>Net Amounts Presented in the Statement of Financial Condition</b>	<b>Amounts Not Offset in the Statement of Financial Condition Cash or Financial Instruments</b>	<b>Net Amount</b>
Offsetting of financial assets:					
Securities segregated for regulatory purposes -					
purchased under agreements to resell	\$ 16,517 <sup>1</sup>	\$ -	\$ 16,517	\$ (16,517)	\$ -
Securities borrowed	3,662	-	3,662	(3,537)	125
Securities purchased under agreements to resell	1,302	-	1,302	(1,302)	-
Financial instruments owned, at fair value					
Options	563	-	563	(10)	553
Currency forward contracts	5	-	5	-	5
Total	<u>\$ 22,049</u>	<u>\$ -</u>	<u>\$ 22,049</u>	<u>\$ (21,366)</u>	<u>\$ 683</u>
Offsetting of financial liabilities:					
Securities loaned	\$ 3,694	\$ -	\$ 3,694	\$ (3,507)	\$ 187
Securities sold under agreements to repurchase	15	-	15	(15)	-
Financial instruments sold, but not yet purchased, at fair value					
Options	10	-	10	(10)	-
Currency forward contracts	2	-	2	-	2
Total	<u>\$ 3,721</u>	<u>\$ -</u>	<u>\$ 3,721</u>	<u>\$ (3,532)</u>	<u>\$ 189</u>

<sup>(1)</sup> As of June 30, 2019, the Company had \$16.5 billion of securities purchased under agreements to resell that were segregated to satisfy regulatory requirements. These securities are included in "Securities - segregated for regulatory purposes" in the statement of financial condition.

<sup>(2)</sup> The Company did not have any balances eligible for netting in accordance with ASC Topic 210-20 at June 30, 2019.

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### *Secured Financing Transactions – Maturities and Collateral Pledged*

The following table presents gross obligations for securities loaned transactions by remaining contractual maturity and class of collateral pledged as of June 30, 2019:

	<b>Remaining Contractual Maturity</b>				<b>Total</b>
	<b>Overnight and Open</b>	<b>Less than 30 days</b>	<b>30 - 90 days</b>	<b>Over 90 days</b>	
Securities loaned					
Stocks	\$ 3,634	\$ -	\$ -	\$ -	\$ 3,634
Corporate bonds	60	-	-	-	60
Securities sold under agreements to repurchase					
U.S. government securities	-	15	-	-	15
<b>Total</b>	<b>\$ 3,694</b>	<b>\$ 15</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,709</b>

## 5. Segregation of Funds and Reserve Requirements

As a result of customer activities, the Company is obligated by rules mandated by its primary regulators, the SEC and the CFTC, to segregate or set aside cash or qualified securities to satisfy such rules which have been promulgated to protect customer assets. In addition, the Company is a member of various clearing organizations at which cash or securities are deposited as required to conduct day-to-day clearance activities.

In accordance with the Customer Protection Rule, the Company is required to maintain separate bank accounts for the exclusive benefit of customers. At June 30, 2019, the Company held cash of \$1,443 and securities purchased under agreements to resell with a carrying value of \$16,400 to satisfy this requirement.

During the period ended June 30, 2019, the Company performed the computations for the assets in the proprietary accounts of brokers (commonly referred to as “PAB”) in accordance with the customer reserve computation set forth under the Customer Protection Rule. At June 30, 2019, the Company held cash of \$7 and securities purchased under agreements to resell with a carrying value of \$117 to satisfy this requirement.

In accordance with the Commodity Exchange Act, the Company is required to segregate all monies, securities and property received to margin and to guarantee or secure the trades or contracts of customers in regulated commodities. At June 30, 2019, the Company had cash and securities of \$4,201, payables to brokers, dealers and clearing organizations of \$13 and commodities option contracts with net short market value of \$42 segregated to satisfy this requirement. At June 30, 2019, the net market values of long and short commodity option contracts were included in payables to brokers, dealers and clearing organizations.

# **INTERACTIVE BROKERS LLC**

## **Notes to Unaudited Statement of Financial Condition**

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In accordance with CFTC Regulation 30.7, the Company is required to segregate all monies, securities and property received to margin and to guarantee or secure the trades or contracts of foreign boards of trade. At June 30, 2019, the Company had cash and securities in the amount of \$526 and receivables from brokers, dealers and clearing organizations of \$84 segregated to satisfy this requirement.

In accordance with NFA Financial Requirements Section 14, the Company is required to hold amounts, equal to or in excess of its retail forex obligation, at one or more qualifying institutions in the U.S. or money center countries (as defined in CFTC Regulation 1.49). NFA authorized the Company to utilize its daily securities reserve computations performed in accordance with the Customer Protection Rule to satisfy this requirement.

### **6. Net Capital Requirements**

The Company is subject to the Uniform Net Capital Rule, which requires the maintenance of minimum net capital. The Company has elected to use the alternative method permitted by the rule, which requires it to maintain minimum net capital, as defined, equal to the greater of \$0.5 or 2% of aggregate debit balances arising from customer transactions, as defined. The Company is also subject to the CFTC's minimum financial requirements (Regulation 1.17), which require it to maintain minimum net capital, as defined, equal to the greater of (a) \$20 plus 5% of total retail forex obligations in excess of \$10, or (b) 8% of the total commodities risk margin requirement for all positions carried in customer and non-customer accounts. The Uniform Net Capital Rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital would be less than 5% of aggregate debit balances arising from customer transactions. At June 30, 2019, the Company had net capital of \$5,433, which was \$5,010 in excess of the required net capital of \$423.

### **7. Related Party Transactions**

In the normal course of business, the Company enters into securities transactions such as trade execution, securities lending, and securities purchased under agreements to resell transactions with affiliates. The Company also shares administrative, financial and technological resources with affiliates. All related party transactions have been executed under arm's length conditions.

The Company's related party transactions are mainly conducted with its parent, IBG LLC, IBG Holdings LLC, Timber Hill LLC, Interactive Brokers Corp., Interactive Brokers Canada Inc., Timber Hill Canada Company, Interactive Brokers (U.K.) Limited, Covestor, Inc. and its subsidiary, Covestor Limited, IBKR Financial Services AG (formerly Timber Hill Europe AG), Interactive Brokers Hong Kong Limited, IB Business Services (Shanghai) Company Limited, Interactive Brokers Securities Japan, Inc., and Interactive Brokers Australia Pty Limited.

Brokerage transaction receivables and payables are reported gross. Other affiliate receivables and payables including interest, administrative, consulting and service fees, and advances are reported net by affiliate.

Included in receivables from and payables to customers in the statement of financial condition are accounts receivable from and payable to directors, officers and affiliate customer accounts.

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Included in the statement of financial condition are the following amounts with related parties at June 30, 2019:

### Assets

Securities borrowed	\$	508
Receivables from customers		2,347
Receivables from brokers, dealers and clearing organizations		412
Receivables from affiliates		94
Other receivables: interest		3
Total assets with related parties	\$	<u>3,364</u>

### Liabilities

Securities loaned	\$	442
Payables to customers		2,869
Securities sold under agreements to repurchase		15
Payables to affiliates		64
Interest payable		2
Total liabilities with related parties	\$	<u>3,392</u>

## 8. Employee Incentive Plans

### *Defined Contribution Plan*

The Company offers to employees who have met minimum service requirements the opportunity to participate in defined contribution retirement plans qualifying under the provisions of Section 401(k) of the Internal Revenue Code. The general purpose of this plan is to provide employees with an incentive to make regular savings in order to provide additional financial security during retirement. This plan provides for the Company to match 50% of the employees' pre-tax contribution, up to a maximum of 10% of eligible earnings. The employee is vested in the matching contribution incrementally over six years of service.

### *2007 Stock Incentive Plan*

Under IBG, Inc.'s Stock Incentive Plan, up to 30 million shares of IBG, Inc.'s common stock may be issued to satisfy vested restricted stock units granted to directors, officers, employees, contractors and consultants of the Company. The purpose of the Stock Incentive Plan is to promote the Company's long-term financial success by attracting, retaining and rewarding eligible participants.

The Stock Incentive Plan is administered by the Compensation Committee of IBG, Inc.'s Board of Directors. The Compensation Committee has discretionary authority to determine the eligibility to participate in the Stock Incentive Plan and establishes the terms and conditions of the awards, including the number of awards granted to each participant and all other terms and conditions

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applicable to such awards in individual grant agreements. Awards are expected to be made primarily through grants of IBG Inc.'s restricted stock units. Stock Incentive Plan awards are subject to issuance over time. All previously granted but not yet earned awards may be cancelled by the Company upon the participant's termination of employment or violation of certain applicable covenants prior to issuance, unless determined otherwise by the Compensation Committee.

The Stock Incentive Plan provides that, upon a change in control, the Compensation Committee may, at its discretion, fully vest any granted but not yet earned awards under the Stock Incentive Plan, or provide that any such granted but not yet earned awards will be honored or assumed, or new rights substituted by the new employer on a substantially similar basis and on terms and conditions substantially comparable to those of the Stock Incentive Plan.

IBG, Inc. is expected to continue to grant awards on or about December 31 of each year to eligible participants, including employees of the Company, as part of an overall plan of equity compensation. Restricted stock units vest and become distributable to participants in accordance with the following schedule:

- 10% on the first vesting date, which is on or about May 9 of each year; and
- an additional 15% on each of the following six anniversaries of the first vesting, assuming continued employment with the Company and compliance with non-competition and other applicable covenants.

Estimated future grants under the Stock Incentive Plan are accrued for ratably during each year (see Note 2). In accordance with the vesting schedule, outstanding awards vest and are distributed to participants yearly on or about May 9 of each year. At the end of each year, no vested awards remain undistributed.

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The following table summarizes the Stock Incentive Plan activity for the six month period ended June 30, 2019:

	<u>Stock Incentive Plan Units <sup>1</sup></u>		<u>Intrinsic Value of SIP Shares which Vested and were Distributed <sup>2</sup></u>
Balance, January 1, 2019	1,412,719		
Granted	-		
Cancelled	(5,572)		
Distributed	(390,164)	\$	22
Balance, June 30, 2019	<u>1,016,983</u>		

<sup>(1)</sup> Stock Incentive Plan number of granted restricted stock units related to 2018 was adjusted by 6 less restricted stock units during the six months ended June 30, 2019.

<sup>(2)</sup> Intrinsic value of SIP units distributed represents the compensation value reported to the participants.

Awards previously granted but not yet earned under the Stock Incentive Plan are subject to the plans' post-employment provisions in the event a participant ceases employment with the Company. Through June 30, 2019, a total of 120,957 restricted stock units have been distributed under these post-employment provisions.

### 9. Property and Equipment

Property and equipment, which are included in other assets in the statement of financial condition are comprised of leasehold improvements, computer equipment, computer software, and office furniture and equipment.

At June 30, 2019, property and equipment consisted of:

Leasehold improvements	\$	5
Computer equipment		4
Computer software		1
Office furniture and equipment		<u>2</u>
		12
Less - accumulated depreciation and amortization		<u>(4)</u>
Property and equipment, net	\$	<u>8</u>

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### 10. Leases

All of the Company's leases are classified as operating leases and primarily consist of real estate leases for corporate offices. As of June 30, 2019, the weighted-average remaining lease term on these leases is approximately 7 years and the weighted-average discount rate used to measure the lease liabilities is approximately 4.18%. The Company's lease agreements do not contain any residual value guarantees, restrictions or covenants.

The following table presents balances reported in the statement of financial condition related to the Company's leases as of June 30, 2019:

Right-of-use assets <sup>1</sup>	\$	12
Lease liabilities <sup>1</sup>	\$	14

<sup>(1)</sup> Right-of-use assets are included in other assets and lease liabilities are included in accounts payable, accrued expenses and other liabilities in the Company's statement of financial condition.

The following table reconciles the undiscounted cash flows of the Company's leases as of June 30, 2019 to the present value of its operating lease payments:

2019 (remaining)	\$	1
2020		2
2021		2
2022		2
2023		3
2024		3
Thereafter		3
Total undiscounted operating lease payments	\$	16
Less: imputed interest		(2)
Present value of operating lease liabilities	\$	14

### 11. Commitments, Contingencies and Guarantees

#### *Claims Against Customers*

Over an extended period in 2018, a small number of the Company's brokerage customers had taken relatively large positions in a security listed on a major U.S. exchange. The Company extended margin loans against the security at a conservatively high collateral requirement. In December 2018, within a very short timeframe, this security lost a substantial amount of its value. During the quarter ended March 31, 2019, subsequent price declines in the stock caused these accounts to fall into deficits, despite the Company's efforts to liquidate the customers' positions. The Company is currently evaluating pursuing the collection of the debts, although debt collection efforts are inherently difficult

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and uncertain. The ultimate effect of this incident on the Company's results will depend upon market conditions and the outcome of the Company's debt collection efforts.

### *Litigation*

The Company is subject to certain pending and threatened legal actions that arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. The Company has not been able to quantify the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of final resolution or the ultimate settlement. Management believes that the resolution of these actions will not have a material effect, if any, on the Company's business or financial condition, but may have a material impact on the results of operations for a given period.

The Company accounts for potential losses related to litigation in accordance with FASB ASC Topic 450, "Contingencies." As of June 30, 2019, reserves provided for potential losses related to litigation matters were not material.

### *Trading Technologies Matter*

On February 3, 2010, Trading Technologies International, Inc. ("Trading Technologies") filed a complaint in the U.S. District Court for the Northern District of Illinois, Eastern Division, against IBG, Inc., IBG LLC, IBG Holdings LLC, and the Company. Thereafter, Trading Technologies dismissed IBG, Inc. and IBG Holdings LLC from the case, leaving only IBG LLC and the Company as defendants ("Defendants"). The operative complaint, as amended, alleges that the Defendants have infringed and continue to infringe twelve U.S. patents held by Trading Technologies. Trading Technologies is seeking, among other things, unspecified damages and injunctive relief ("the Litigation"). The Defendants filed an answer to Trading Technologies' amended complaint, as well as related counterclaims. The Defendants deny Trading Technologies' claims, assert that the asserted patents are not infringed and are invalid, and assert several other defenses as well. Trading Technologies also filed patent infringement lawsuits against approximately a dozen other companies in the same court. The Litigation was consolidated with the other lawsuits filed by Trading Technologies.

The Defendants and/or certain codefendants filed petitions with the United States Patent and Trademark Office ("USPTO") for Covered Business Method Review ("CBM Review") on the asserted patents. The District Court granted the Defendants' motion to stay the Litigation pending the CBM Reviews. The USPTO Patent Trial Appeal Board ("PTAB") found all claims of ten of the twelve asserted patents to be invalid. Of the remaining two patents, 53 of the 56 claims of one patent were held invalid and the other patent survived CBM Review proceedings. Appeals were filed by either Defendants or Trading Technologies on all PTAB determinations.

On February 13, 2019, the United States Court of Appeals for the Federal Circuit issued opinions in the appeals on four patents from the CBM Review determinations. The Federal Circuit vacated the CBM Review determinations of invalidity for these four patents, concluding that these patents were

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not eligible for CBM Review. The Federal Circuit denied the Company's request for rehearing on one of the four patents. On February 26, 2019, the District Court ordered that the stay be lifted with respect to the four patents that are the subject of the Federal Circuit decision vacating the CBM Review determinations and scheduled trial for February 2020. On April 18, 2019, the Federal Circuit issued opinions in the appeals on an additional three patents from the CBM Review determinations. The Federal Circuit affirmed the CBM Review determinations of invalidity for these three patents. On April 30, 2019, the Federal Circuit issued an opinion in the appeal on an additional patent from the CBM Review determinations. The Federal Circuit affirmed the CBM Review determination of invalidity for the patent. On May 21, 2019, the Federal Circuit issued opinions on an additional three patents from the CBM Review determinations. The Federal Circuit affirmed the CBM review determinations of invalidity for these three patents. On July 1, 2019, the Federal Circuit issued an opinion in the appeal on an additional patent from the CBM Review determination. The Federal Circuit affirmed the CBM Review determination of invalidity for the patent.

While it is difficult to predict the outcome of the matter, the Company believes it has meritorious defenses to the allegations made in the complaint and intends to defend itself vigorously against them. However, litigation is inherently uncertain and there can be no guarantee that the Company will prevail or that the Litigation can be settled on favorable terms.

### *Class Action Matter*

On December 18, 2015, a former individual customer filed a purported class action complaint against the Company, IBG, Inc., and Thomas Frank, PhD, the Company's Executive Vice President and Chief Information Officer, in the U.S. District Court for the District of Connecticut. The complaint alleges that the purported class of the Company's customers were harmed by alleged "flaws" in the computerized system used to close out (i.e., liquidate) positions in customer brokerage accounts that have margin deficiencies. The complaint seeks, among other things, undefined compensatory damages and declaratory and injunctive relief.

On September 28, 2016, the District Court issued an order granting the Company's motion to dismiss the complaint in its entirety, and without providing plaintiff leave to amend. On September 28, 2017, plaintiff appealed to the United States Court of Appeals for the Second Circuit. On September 26, 2018, the Court of Appeals affirmed the dismissal of plaintiff's claims of breach of contract and commercially unreasonable liquidation but vacated and remanded back to the District Court plaintiff's claims for negligence. On November 30, 2018, the plaintiff filed a second amended complaint. The Company filed a motion to dismiss the new complaint on January 15, 2019 requesting that the District Court dismiss the remaining negligence claims. Regardless of the ultimate outcome of the motion to dismiss, the Company does not believe that a purported class action is appropriate given the great differences in portfolios, markets and many other circumstances surrounding the liquidation of any particular customer's margin-deficient account. The Company and the related defendants intend to continue to defend themselves vigorously against the case and, consistent with past practice in connection with this type of unwarranted action, any potential claims for counsel fees and expenses incurred in defending the case may be fully pursued against the plaintiff.

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### ***Regulatory Matters***

The Company is currently providing information to FINRA, the SEC, the CFTC, and the United States Department of Justice focused on anti-money laundering and Bank Secrecy Act practices. The Company periodically reviews these practices to make them more robust and to keep pace with changing regulatory standards, and the Company has been enhancing and augmenting its procedures and personnel in these areas over the past several years. While the outcome of the examinations and inquiries currently in progress cannot be predicted, the Company does not believe that they are likely to have a materially adverse effect on its statement of financial condition.

### ***Guarantees***

The Company provides guarantees to securities and commodities clearing houses and exchanges which meet the accounting definition of a guarantee under FASB ASC Topic 460, "Guarantees." Under standard membership agreements, clearing house and exchange members are required to guarantee collectively the performance of other members. Under the agreements, if a member becomes unable to satisfy its obligations, other members would be required to meet shortfalls. In the opinion of management, the Company's liability under these arrangements is not quantifiable and could exceed the cash and securities they have posted as collateral. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried in the statement of financial condition for these arrangements.

In connection with its retail brokerage business, the Company performs securities and commodities execution, clearance and settlement on behalf of its customers for whom it commits to settle trades submitted by such customers with the respective clearing houses. If a customer fails to fulfill its settlement obligations, the Company must fulfill those settlement obligations. The Company is fully secured by assets in customers' accounts and any proceeds received from securities and commodities transactions entered into by the Company on behalf of customers. No contingent liability is carried in the statement of financial condition for such customer obligations.

### ***Other Commitments***

Certain clearing houses, clearing banks and firms used by the Company are given a security interest in certain assets of the Company held by those clearing organizations. These assets may be applied to satisfy the obligations of the Company to the respective clearing organizations.

## **12. Collateralized Transactions**

The Company enters into securities borrowing and lending transactions and agreements to repurchase and resell securities to obtain securities for settlement and to earn residual interest rate spreads. In addition, the Company's customers pledge their securities owned to collateralize margin loans. Under these transactions, the Company either receives or provides collateral, including equity, corporate debt and U.S. government securities. Under typical agreements, the Company is permitted to sell or repledge securities received as collateral and use these securities to secure securities purchased under

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agreements to resell, enter into securities lending transactions or deliver these securities to counterparties to cover short positions.

The Company also engages in securities financing transactions with and for customers through margin lending. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. Customers' required margin levels and established credit limits are monitored continuously by risk management staff using automated systems. Pursuant to the Company's policy and as enforced by such systems, customers are required to deposit additional collateral or reduce positions, when necessary, to avoid automatic liquidation of their positions.

Margin loans are extended to customers on a demand basis and are not committed facilities. Factors considered in the acceptance or rejection of margin loans are the amount of the loan, the degree of leverage being employed in the customer account and an overall evaluation of the customer's portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral. Additionally, transactions relating to concentrated or restricted positions are limited or prohibited by raising the level of required margin collateral (to 100% in the extreme case). Underlying collateral for margin loans is evaluated with respect to the liquidity of the collateral positions, valuation of securities, volatility analysis and an evaluation of industry concentrations. Adherence to the Company's collateral policies significantly limits the Company's credit exposure to margin loans in the event of a customer's default. Under margin lending agreements, the Company may request additional margin collateral from customers and may sell securities that have not been paid for or purchase securities sold but not delivered from customers, if necessary. At June 30, 2019, approximately \$24.3 billion of customer margin loans were outstanding.

The following table summarizes the amounts related to collateralized transactions as of June 30, 2019:

	Permitted <u>to Repledge</u>	Sold or <u>Repledged</u>
Securities lending transactions	\$ 25,077	\$ 3,751
Securities purchased under agreements to resell transactions <sup>1</sup>	17,886	17,045
Customer margin assets	24,539	9,162
	<u>\$ 67,502</u>	<u>\$ 29,958</u>

<sup>(1)</sup> As of June 30, 2019, \$16.5 billion or 97% of securities acquired through agreements to resell that are shown as repledged have been deposited in a separate bank account for the exclusive benefit of customers in accordance with SEC Rule 15c3-3.

At June 30, 2019, financial instruments owned and pledged as collateral, where the counterparty has the right to repledge, consist of U.S. government securities of \$38.

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### **13. Subsequent Events**

As required by FASB ASC 855, “Subsequent Events”, the Company has evaluated subsequent events for adjustment to or disclosure in its statement of financial condition through the date the statement of financial condition was issued.

Except as disclosed in Note 11, no other recordable or disclosable events occurred.

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