

Interactive Brokers Group's (IBKR)

Q1 2020 Results - Earnings Call Transcript

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Executives

Thomas Peterffy - Chairman

Paul Brody - CFO

Nancy Stuebe - Director, IR

Analysts

Will Nance *Goldman Sachs*

Kyle Voigt *Keefe, Bruyette, & Woods*

Rich Repetto, *Piper Sandler*

Chris Harris, *Wells Fargo Securities*

Chris Allen, *Compass Point Research*

Mac Sykes, *Gabelli*

Operator

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

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

Nancy Stuebe

Good afternoon, and thank you for joining us for our first quarter 2020 earnings conference call. Once again, Thomas is on the call, but asked me to present his comments on the business. He will handle the Q&A.

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

In light of the COVID-19 pandemic, we want to emphasize that our focus is on our employees, clients and communities. Senior management at Interactive Brokers has worked together for decades, most from before the inception of the electronic broker. We were all here during the financial crisis. Many were here in 1987 as well. Our company's culture has been one of working hard independently and together to solve problems and come up with solutions, preferably automated ones. This strength of management cohesion and long-time experience enabled us to react to recent events in a coordinated way worldwide, which allowed us to move quickly to a work-from-home model.

Globally, the majority of our employees are working remotely, and they have the tools needed to work effectively. Because our systems and processes are highly automated, the bulk of our employees can work from outside a physical office.

Our long-time focus on automated self-service solutions, like our IBot AI system that can answer many client questions, served us well during this time. And while the market turbulence, together with the high volume of new accounts, had at times this quarter challenged our client service call capacity, we activated plans to address this and have made good progress in reducing wait times.

While the world around us has changed greatly in the past few months, Interactive Brokers' ability to achieve new records has not. Accounts rose 22% over last year to 760,000, as we added 70,000 net new accounts in the quarter - about the same number of account adds, in one quarter, as we added over the first 3 quarters of 2019. This implies a 40% annualized account growth rate. Account growth was seen in all client segments and all geographic regions. There has been no change in the ability of China accounts to fund. Despite markets down about 9% year-on-year, our total client equity rose 9% to \$161 billion, the second highest quarterly total in our history.

As our customer base grew, DARTs and DARTs per account also rose significantly, as more clients traded actively during record-high market volatility. Total DARTs reached over 1.4 million, up 71% from last year, while DARTs per account grew to over 450, their highest level in about 4 years. And during the month of March, our DARTs exceeded 2 million.

We have spoken many times of our focus on growing our customer base in all segments, so we can take advantage of volatility in any market scenarios. Our business is strong even with moderate volatility, but because of the highly automated nature of our platform and our low-cost structure, higher volatility and trading activity sends a greater proportion of revenues to our bottom line.

When we're asked, "What led to this strength?", It is simple, it all leads back to our platform, its global reach and vast product offering and the strength and reliability of its automation during busy periods. Because of this, when people anywhere in the world, plus stay at home, as they are during the recent coronavirus pandemic and they look for something productive to do, Interactive Brokers can help them find it.

However, we must fess up to the dim outlook for net interest revenue in the new 0 interest regime. While our net interest income has been slightly over \$250 million per quarter, we will be lucky to get to \$150 million per quarter while rates are near 0 and margin loans and short interest remain at lower levels.

Finally, our total equity reached over \$8 billion in the first quarter, our highest amount to date. With no debt, our balance sheet remains strong. As we continue to grow larger, our equity capital helps us attract larger customers.

We saw growth in all 5 of the client types that we service. I will now go over our 5 client segments.

Individual customers, which made up 52% of our accounts, 36% of our client equity and 51% of our commissions, were particularly strong this quarter with 12-month account growth of 29%,

client equity growth of 11% and 12% growth in commissions. Despite a background of 9%-plus drops in most major markets, the increases we saw in client equity and commissions indicate the strength of our growth in this segment.

While all geographic regions we serve saw double-digit account growth, we saw particularly strong increases in Europe and Asia, showing the importance of providing a reliable platform to a global audience that offers wide product choices and worldwide access. This way, clients have the maximum opportunities to invest in the way they prefer. As mentioned earlier, Interactive Brokers is a stay-at-home company, with individuals wanting to trade and manage their money now that they have the time to do so, and the growth we saw in the individual segment reflects this.

We continue to see growth in the hedge fund customer segment despite world market weakness. For the 12 months ended March 31, we saw 4% hedge fund account growth, 2% customer equity growth and 1% commission growth. We continue to benefit from growing word of mouth, our reputation for best price execution, low margin rates, and from the quality of our platform and the strength of our balance sheet. Hedge funds represent 1% of our accounts, 8% of our client equity and 9% of our commissions.

Proprietary trading firms are 2% of our accounts, 12% of client equity, and 15% of commissions. For the quarter, this group grew by 11% in accounts for the 12-month period, 23% in client equity and 17% in commissions. Prop trading firms are sensitive to the direction of volatility, and trade more as volatility increases. This quarter's high volatility led to more active trading strategies, while accounts and client equity grew due to more traders wanting to be on our platform, and to capitalize on its reputation for seamlessness and efficient trade executions.

Financial advisers are 14% of our accounts, 20% of our customer equity and 15% of our commissions. This group grew accounts by 8% for the 12-month period, while customer equity declined by 6% and commissions were flat. World markets' declines over the period meant that client equity did not keep pace with account growth, and commissions for the segment, which typically tends to trade more conservatively, were flat.

Our final segment is introducing brokers. These represent 31% of our accounts, 24% of our client equity and 10% of our commissions. IBroker segment account growth was 19% for the latest 12 months, with 18% in client equity growth and 15% in commissions. Interactive Brokers platform, and its ability to offer global trading and seamless back-office functionality, are compelling arguments for brokers who more and more seek a service for a global offering, as people worldwide seek to trade on recent market volatility and want to be able to access many markets in order to do so.

We continue to enhance our platform and this quarter expanded our mutual fund offering to close to 25,000 mutual funds, including additions to our offshore fund offerings for our global client base. Our new Offshore Fund Scanner allows clients to choose from a wide variety of funds. And of course, we always aim to be significantly less expensive. We do not charge high custody or transaction fees for offshore funds. Rather, our fees range in price from free to just under EUR 5.

We have also seen better response from our digital marketing efforts since year-end, a positive development we hope will continue.

With that, I will turn the call over to our CFO, Paul Brody, who will go through the numbers for the quarter. Paul?

Paul Brody

Thank you, Nancy. Thanks, everyone, for joining the call. I hope you're all safe and healthy. First, I'll review our operating results and noncore items. My comments will follow the format of the earnings release, after which we'll open up the call for questions.

You'll note that starting this quarter, we're no longer presenting separate operating business segments. After several years of winding down our market making activity, we have reached the point where it is not contributing materially to our overall results. The streamlined presentation reflects our management focus on our robust Electronic Brokerage business. We have also revised the presentation of line items in the revenue section of our income statement, grouping the interest income and expense lines and splitting other fees and services from other income.

The former contains recurring items such as market data fees and FDIC Bank Sweep Program income, while the latter contains currency impacts, U.S. Treasury marks-to-market, principal trading activities and other investment gains or losses.

Turning to the operating data. The operating metrics reflected record levels of trading and account openings in a high volatility environment. This was a tumultuous quarter, given the impact of the coronavirus around the world. Volatility, as measured by the average VIX, nearly doubled to 30.7 in the current quarter, up from 16.7 in the first quarter last year. In contrast to the first 3 months of 2019 when the VIX ranged from 15 to 20, this quarter, after showing similar levels in the first 2 months, the index averaged 57 in March and exploded to a high of over 82 mid-month. This dramatic increase corresponded with higher industry trading volumes in products across the board.

Compared to the first quarter of 2019, our quarterly total DARTs rose 71% to a record 1.45 million.

Our customer trade volumes rose dramatically in every product class, led by increases of 64%, 59% and 24% in the customer options, futures and stock volumes, respectively. FX dollar volumes were strong as well, increasing 58%. Total accounts reached 760,000, up 22% over the prior year, which contributed to customer equity growth of 9% to \$160.7 billion at quarter-end despite a drop of 9% in the S&P 500 Index over the time period.

Our overall average cleared commission per commissionable order fell 10% versus last year to \$3.30. On a product mix, it featured smaller average trade sizes in stocks, futures and ForEx and higher in options.

Moving on to our net interest margin table. Our net interest margin narrowed from 1.67% to 1.45% in the first quarter, as benchmark interest rates declined and clients delevered, resulting in a greater proportion of their assets held in cash and less margin lending.

The Federal Reserve made a series of moves in March to aid the economy in light of the impact of the coronavirus, the end result of which was a near-0 interest rate policy in the U.S. In light of the flat yield curve, we kept the duration of our portfolio relatively short and recorded a mark-to-market gain of \$11 million on our holdings of U.S. Treasuries. As always, we plan to hold these securities to maturity, but as brokers, unlike banks, GAAP rules require us to mark them to market in our financial reporting.

Outside the U.S., benchmark interest rates were cut in many currencies, as central banks look to soften the impact from the COVID-19 pandemic, with exceptions in countries where rates were already 0 or negative. This moderates somewhat our expectations on the impact of U.S. rates on net interest income, as about 1/4 of customer credit balances are not in U.S. dollars.

Increased customer balances, despite lower rates in this quarter versus last year, generated more net interest income on cash balances. In addition to the cash from customers liquidating positions, we continue to have success in asset gathering. Along with the growth in cash balances, our FDIC Insured Bank Deposit Sweep Program has grown to \$2.9 billion, up from \$1.9 billion last year.

Margin lending and segregated cash management continued to be the largest contributors to our net interest margin. Average margin loan balances rose 6% versus last year, however, significantly lower interest rates versus last year led to a 20% decline in margin interest income.

Lower rates also reduced our earnings on segregated cash, where despite a 32% increase in segregated cash balances, interest income fell 22%. Note that effective Fed funds fell nearly in half over this time period. Several factors caused the yields on our segregated cash to differ from the changes in Fed funds rates. First, the portion is held in other currencies. And second, given an average duration of investment in Treasuries of about 44 days during the quarter, re-investments take place over time, so these amounts would not be expected to follow declines immediately.

The increase in segregated cash balances is also a function of customers' diminished appetite for risk. That is less investment in stocks, particularly in purchases financed by margin loans leads to more segregated cash on the sideline to be invested. Note too that the FDIC Sweep Program

removes funds that would otherwise be included in our segregated cash balances from our balance sheet for accounting purposes.

Securities lending interest income was up 19% this quarter versus a year ago, as we capitalized on more hard-to-borrow names that investors were looking to short.

Now for our estimate of the impact of the next 25 basis point increase in rates, however unlikely that may seem at the time. When calculating the impact of rate changes, we understand that as the possibility of a future rate increase becomes more certain, this expectation is typically already reflected in the yields of the instruments in which we invest. Therefore, we attempt to isolate the impact of an unexpected rise of falling rates, separate from the impact of rate hikes or cuts that have already been baked into the prices of these instruments.

With that assumption, we would expect the next 25 basis point unanticipated rise in rates to produce an additional \$79 million in net interest income over the next 4 quarters, and \$94 million as the yearly run rate based on our current balance sheet. These numbers are higher than our typical calculation due to the impact of low benchmark rates on the spread between what we earn on our segregated cash and what we pay to our customers. As U.S. rates fall below 50 basis points, the spread compresses as we earn less on our segregated cash. However, the converse is also true that as rates move back up towards 50 basis points, the spread rises.

The run rate includes the reinvestment of all of our present holdings at the new assumed rate, but does not take into account any change in how we might manage our segregated cash. If we are successful in continuing to grow our customer assets, the higher cash and margin lending balances will provide some offset to the loss of net interest income from low benchmark rates, should they persist.

As I explained earlier, this quarter we begin reporting our consolidated numbers only without segments. We define noncore items as those not part of our fundamental operating results. Noncore items adjusted the numbers versus the year ago quarter as follows: our currency diversification strategy lost \$19 million a year ago versus a loss of \$49 million this quarter, so a comparative decrease in income of \$30 million. A shift from \$104 million mark-to-market gain to

\$11 million loss on investments reduced income by \$115 million. Mark-to-market gains on U.S. government securities went from \$5 million to \$11 million, a comparative increase of \$6 million. And unusual customer bad debt expense of \$42 million in the year-ago quarter did not recur in the first quarter. The net effect of these adjustments reduced income by \$97 million comparatively versus last year.

Net revenues were a reported \$532 million for the quarter, down 5% versus last year's first quarter. Excluding noncore items, the net revenue was up 24% to \$581 million. Commission revenue rose 55% on significantly higher volumes in all product categories. Lower average trade sizes in nearly all product categories reduced our average cleared commission per commissionable order to \$3.30. This is often seen during high volatility periods as traders risk less in a fast moving market.

Net interest income rose 4% to \$256 million despite a 48% decline in the average effective Fed funds rate versus the year-ago quarter. Other fees and services revenues, which include market data, exposure, account activity and FDIC Bank Sweep Program fees, as well as order flow income from options exchange mandated programs, rose \$3 million or 9% over last year.

Other income, which includes gains and losses on our investments and currency strategy as well as principal transactions, was a loss of \$31 million. And ex noncore items, other income increased 29% to \$18 million.

Noninterest expenses were \$224 million for the quarter, up 2% from last year. Adjusting 2019 for an unusual margin loss, noninterest expenses were up 27% due primarily to higher execution and clearing costs in line with higher trade volumes.

At quarter-end, our total headcount stood at 1,702, a 17% increase over last year. Currently, due to the COVID-19 pandemic, we have about 3/4 of our employees worldwide working remotely. After a brief pause, we are hiring again to keep up with the influx of new accounts and to strengthen client services and systems development for the future.

Fixed expenses were \$140 million, up 22%, driven by higher compensation and benefits, in line

with the hiring that supports the growing brokerage business, and G&A expenses, including legal and compliance costs and reserves.

Customer bad debt expense was a higher than usual \$7 million, but it was well contained despite the dramatic increase in volatility. Reported pretax income was \$308 million, down 9% for a 58% margin. And excluding noncore items, pretax income was \$357 million, up 23% for a 61% pretax margin.

Diluted earnings per share were \$0.60 for the quarter versus \$0.64 for the same period in 2019. And ex noncore items, diluted earnings per share were \$0.69 versus \$0.55 as adjusted last year.

To help investors better understand our earnings, taxes and the split between the public shareholders and the noncontrolling interests, first quarter numbers are as follows. Starting with our pretax income of \$308 million, we deduct \$9 million for income taxes paid by our operating companies, which are mostly foreign taxes. This leaves \$299 million, of which 81.5% or that \$244 million reported on our income statement, is attributable to noncontrolling interests. The remaining 18.5%, or \$55, million is available for the public company shareholders, but as this is a non-GAAP measure, it is not reported on our income statement.

After we expense remaining taxes of \$9 million owed on that \$55 million, the public company's net income available for common stockholders is the \$46 million you see reported on our income statement. Our income tax expense of \$18 million consists of this \$9 million plus the \$9 million of taxes paid by the operating companies.

Turning to the balance sheet, it consistently remains highly liquid with low leverage, with \$8.15 billion in consolidated equity. We are well capitalized from a regulatory standpoint and continue to deploy our equity capital in the growing brokerage business. We hold excess capital in order to take advantage of opportunities, as well as to emphasize the strength and depth of our balance sheet. And we continue to carry no long-term debt.

At March 31, margin loans were \$20 billion, a decline of 22% from last year as clients delevered in a risk-off environment. We continue to expect swings in margin lending balances due to our

success in attracting institutional hedge fund customers who are more opportunistic in taking on leverage. We offer the lowest margin lending rates of our competitors, and as we expand our customer base, we stand well positioned to satisfy customers' risk appetite when it returns.

Now I'll turn it over to moderator, and we can take some questions.

Question and Answer Session

Operator

(Operator Instructions) Our first question comes from the line of Rich Repetto from Piper Sandler.

Rich Repetto

I guess my question has to do with the press release that you put out after the close about the provisionary loss you're going to take related to the WTI contract. And I guess the question is, was this due to customers holding the positions right till close to expiration? Because I'm just wondering how they could ever fulfill like the physical delivery requirement of holding the contract.

Thomas Peterffy

So Rich, first of all, I would like to apologize for springing this announcement onto everybody so unexpectedly, this happened to us just last night. We were up most of the night trying to figure out what was going on, and we still do not have all of our facts completely in order. But I felt that we have to put out this notice.

Now as to your question, this was a cash-delivered contract -- cash-settled contract. So it was not about delivering. The cash-settled contract is priced off of the delivered contract, the CL. So this is WTI, that is priced off of the CL and the CL settlement price, which is a delivered contract, determines the settlement price -- sorry, CL trade price in a 2-minute window of between 2:28 and 2:30 Europe time, the volume based at average price in those 2 minutes on the CL contract

determines the settlement price for this cash settlement contract. So most of the loss came from WTI, and some of it came from -- Paul, do you remember the name of that future?

Paul Brody

QM, which is the mini crude oil contract.

Thomas Peterffy

QM. E-mini crude oil contract that's trading on the CME.

Rich Repetto

Okay. So -- well, both the contracts are listed contracts on the CME then, is that correct?

Thomas Peterffy

No, no. The WTI is listed on ICE-Europe. So ICE has a European branch, and that's where it is listed. The bulk of the provision was from that contract.

Rich Repetto

Understood. Okay. I guess the next question is, Paul, on the expected outlook on the net interest income, and I said going from \$250 million, I think, you said per -- I thought you said per quarter to \$150 million. And I guess if you could just sort of walk through sort of the sensitivities there, so we'd just better understand how you come up with that number?

Paul Brody

Well, naturally, there's a lot of moving parts in there. So you have to make certain assumptions, some of them are relatively broad, about what rates might do, or that they're going to do nothing, and then, of course, what balances are likely to be. And the balances are not a small part of the equation, because we've seen radical increases in cash credit balances as customers unwound positions. They're happy to leave the cash with us. And then, of course, a big part of the projection has to do with the spread compression. And what I alluded to when the Fed goes below 50 basis points is that our base credit rate is Fed funds less 50 basis points, that's a very good rate versus our competitors, but of course, it become 0 when the benchmark goes below 50

basis points. So that creates the spread compression, which is also why there's this big elasticity when you see -- as we talk about rates going back up, if they were to go back up, you get a lot back quickly, because for a certain portion of it, the customer side that we're paying on still doesn't go up until it passes 0, right? So there are a lot of moving parts in there. We have to make certain assumptions at the moment. This is our best projection.

Rich Repetto

Got it. That's very helpful. And I guess, the last thing, Thomas, you've mentioned about this stay-at-home phenomena, where it seems like you're benefiting from more client activity. And I guess, the question is, with all this activity, we're still not seeing any -- or could you refresh us in regards to any material difference in mix of the IBKR Lite versus IBKR Pro? We're still seeing people still choose IBKR Pro even in this -- even with high trading volatility, and maybe it drives to even more so, if they require the Smart Router even more so.

Thomas Peterffy

Right. So the more volatile the market is, the more important it is that you get the execution prices, because in a very volatile market, the execution prices can differ to the prices that you see, because it changes so often much, much, much more. So yes, people choose IBKR Pro, the overwhelming majority of them. So far, we have between 20,000 and 21,000 accounts that have chosen to convert to or open an IBKR Lite account and 760,000 I Pro --. I'm sorry, these are today's numbers. So I'm sorry, I should have gotten back to the end of last quarter, yes.

Operator

Our next question comes from the line of Chris Allen from Compass Point.

Chris Allen

I was wondering if we could just dig into the net interest income outlook a little bit more. You gave us kind of the starting point to think about customer margin loans for 2Q, and we can make some assumptions around that and the cash levels. How are you guys thinking about the securities lending book? And then also, does it contemplate continued growth in your customer base from here? Obviously, we can bottom it at a certain level, but then even if rates are stable,

we should start to see some growth start to drive that higher. So any color on that would be helpful.

Thomas Peterffy

Right. But you see without growth, if all the numbers were what they are today or at least what they were at the end of the quarter, the projected interest income would be even lower; most of it is due to the fact that we get basically 15 basis points on customer cash. And that is the biggest item there, right, because we have roughly \$70 billion of customer cash, of which \$20 billion is lent out in margin loans and \$50 billion is lent out in the short-term Treasury market, and that yields only 15 basis points. So that's the culprit. As far -- otherwise, the fact that the margin loans came down from close to \$30 billion to \$20 billion, that's another big drawback. And the third is that the short book came down from roughly around \$10 billion to \$7 billion or \$8 billion.

Paul Brody

Part of that last point, if I could jump in, is that prices are down, right? But clearly, there's been some winding down of positions. But let me say what we've talked about before, which is that the securities lending business is very driven by stocks that get special for a period of time, where great interest, particularly on the short side, kicks up and they become expensive to borrow and lend. And if our customers are on the long side of that, it generates a lot of revenue. So there is, of course, a base of both the shorts and the longs, but it's very much driven by these stocks that become special for short periods of time.

Chris Allen

Understood. And then just switching over to the provision loss, I appreciate the color there. Obviously, there's a lot of chatter just around what's going on in oil ETFs. Are you seeing any other dislocations in markets like there? Any thoughts on the market structure in these products in terms of things that we have to worry about moving forward from a credit loss perspective?

Thomas Peterffy

Well, hopefully, not on our end, but I think there are other people out there with various problems having to do with exchange-traded notes and funds and -- that are holding oil futures. And as I

said on the TV interview, there are folks -- we have 15% of the open interest. So there is 85% out there in some other folks' hands. And so a proportionate loss to the percentages. And there is also a big winner out there, at least one or many, who was holding the opposite side.

Operator

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

Will Nance

Thomas, I was wondering if you can provide some more clarity around the regulatory matters mentioned in the press release. And if you could provide some more clarity around the findings around the BSA/AML practices, maybe if you have some sort of idea around what the shortcomings identified were and what it will take to remedy them? And then, I guess, either Thomas -- go ahead.

Thomas Peterffy

All I can say about that is that we have been on this topic -- working on this topic for about at least 2 years. And as you can imagine, that part of the press release was very carefully drafted. And given the thing is still not -- has not closed, but it's likely to be closed within probably -- certainly by the next quarterly meeting, you just have to wait. I'm sorry, but lawyers are telling me to be very, very careful in whatever you say about open cases.

Will Nance

Sure. And maybe leaving aside -- and I totally understand that there's probably -- you're probably limited on what you can say. Maybe leaving the fine aspect aside, can you talk about what you're thinking about with the third-party consultants and what the kind of scope or what that might entail from a cost perspective going forward would be?

Thomas Peterffy

Well, we have been working with these consultants for at least a year, I'm sure. And so there will be the same consultants, and we're working with them very well. And I assume that the cost will be -- going forward will be similar to what they have been in the past. So I don't think there are

any surprises coming from there.

Will Nance

Got it. That makes sense. And then maybe switching gears over to expenses. I guess, one, just a little housekeeping item. Given the strong volumes, I would have thought execution and clearing might have been a little bit higher. Was there anything to call out that drove that to be a little bit lower than expected this quarter? And then separately, more bigger picture, given the decline in net interest income that you expect, given the rate environment, are there any levers to pull on the cost side that might offset some of this and maybe help you retain some of your best-in-class margins?

Thomas Peterffy

So -- well, as far as the second question goes, we have always been, throughout our history, been focusing on growth. And well, sometimes, revenues are low, sometimes they are high. We do not look at that when we deal with expenses, we always spend as much money as we productively can to grow the business. That's always been our focus, and we have never looked at expenses. Now, of course, you hopefully -- so I don't remember the first question, but I remember that the answer is that trades were generally slow -- smaller in this quarter. Oh, you asked how the trading -- the expenses on the trades were not higher. It's because trades were generally lower in size than the previous quarter, even though as you see the volume was much, much, much greater. You can't just extrapolate by volume, because you have to include the size of the trade. And if you look at the monthly releases, you can see that, right?

Will Nance

Right. So if I look at more on shares traded and...

Thomas Peterffy

Right.

Will Nance

Got it, okay. And then if I could squeeze one more, a quick one in just for Paul. If -- I think some

people are probably a bit surprised by the magnitude of the decline in net interest margin. I think everyone understood that lower rates pressured the spread, but the absolute size is probably a little bit larger. Is it a fair statement to say that a big driver of that is just the decline in margin loans? And could you maybe talk about how sensitive that \$150 million run rate could be if we see kind of a rebound in margin balances over the next several quarters?

Thomas Peterffy

So if I may -- I'm the fellow who is responsible for investing the customer cash. And the fact is that we do not do anything fancy with it. We are invested in short-term Treasuries. So we fluctuate with the short-term Treasury rates. And as you know, when Treasury rates go above 0.5%, that extra we return to our customers. So we're only sensitive here where the interest rate is between 0 and 0.5%. Once we're above 0.5%, we return that excess to the customers, at least to those whose accounts are larger than \$100,000, which I think is over -- only \$10 billion of our customer funds are in accounts that are less than \$100,000. As far as the margin balances, as I said before, they have gone down from \$30 billion to \$20 billion. And obviously, we do not want to increase the margin rates, because we hope to work that up back up to \$30 billion, \$40 billion, \$50 billion. So we're not -- we're never trying to maximize income for the next several quarters. We are always trying to maximize income for the years to come.

Operator

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

Kyle Voigt

Sorry to belabor the point on NII, but I just want to ask a couple of more questions. One, you just mentioned you're responsible for investing that client cash. I remember that back in 2016, I think over 90% of the securities portfolio at that time was invested in U.S. government securities, and repos were a really a small part of what you're doing. Now it's kind of inverted, mostly just overnight repo. Could you take any more duration risk, go out 2 year, 3 year, 4 year or 2 or 5 year on the Treasury curve? And then the second part of that question is, is there -- could you -- you were looking previously at potentially expanding the securities that you would be comfortable investing in for that securities portfolio, I think some other agency securities? Is that on the table

as well to maybe pick up some additional yield in that book?

Thomas Peterffy

So I think it's basically the same question, whether we do agencies or longer-term Treasuries. My answer is that especially at these rates, I mean, it's hard to imagine that they can go any further down. As a matter of fact, the federal government pushing all this money out and more and more and more and more, I think eventually, that inflation will enter the picture and the fact that you have to do something to counteract that. So I would not, at this time -- certainly, at this time, would not go further out on the yield curve.

Kyle Voigt

Got it. And then maybe just a follow-up for Paul. I know you mentioned that \$150 million run rate. Is that a run rate as of today? Because you also mentioned that you still had securities that had some duration to them, those Treasury securities, but maybe a year or over duration in that portion of the book that I assume would provide you kind of a more of a gradual landing point to maybe get to \$150 million a couple of quarters or a few quarters out. But it sounded like that's really the run rate today. Just maybe if you could clarify that.

Paul Brody

Yes. So because the duration is fairly short, the roll-off happens basically in -- if you were to project out 4 quarters, it all happens in the first quarter, and then your reinvestments happen at whatever you assume the reinvestment rate is. So depending on the scenario, say, up 25 basis points, you start to pick that up a little bit of a lag, which is why when I projected \$79 million for the first 4 quarters, but about \$94 million full year run rate, that's exactly why, because it assumes that full investment. Similarly on the downside, we don't have too far to go down. But you have that greater impact -- as we said before, you have that greater impact, because essentially, you're not paying anything to customers on their credit balances at the moment. Therefore, any pickup in the rates go straight to the bottom line, if you will, until you get to that 50 basis points, and then as Thomas said, it becomes a spread.

Kyle Voigt

No, I get that. I guess I'm just saying that on the securities book yield, I thought there were some of the securities book that was invested in Treasuries that may have had a duration of a year or over, that portion of the book that would have repriced over a year, instead of repriced immediately. But I guess you're saying everything is essentially repriced already?

Paul Brody

Well, you're right. Some of it is Treasuries owned, that's primarily for the commodities business to meet regulatory requirements. It's a much smaller piece of the total, and some of those do mature a bit further out. But we take all that into account when we talk about that overall duration.

Kyle Voigt

Okay. Got it. And then just the last one from me is just a follow-up on the losses in -- related to WTI. Just wondering if you could just let us know what -- if those losses were from hedge fund clients or retail clients or just kind of give us an idea of the client segment?

Thomas Peterffy

There were many clients, but we don't have hedge fund clients or retail clients. We have institutional clients and individual clients. And my understanding is that most of these are from individuals. But as you know -- I mean these individual clients tend to be all - traders and people that usually know what they are doing.

Operator

Our next question comes from the line of Chris Harris from Wells Fargo.

Chris Harris

I'm sorry if I missed it, but can you elaborate a little bit on why do you think account growth picked up so materially in the quarter?

Thomas Peterffy

“Stay-at-home” company! So I think there are many people who have, for years, been telling

themselves that one of these days, I'm going to open a brokerage account, I'm going to begin to manage my finances myself. And they just never get around to it. And so finally, they have the time and they have the motivation, so they are doing it. It's an educated guess on my part. That's what I think.

Chris Harris

Okay. And we've been talking a lot about net interest and the impact on your business. One thing I was thinking about is one of the value propositions of IBKR is the favorable rate you pay the customers on deposits. But now that everybody is...

Thomas Peterffy

Yes. Unfortunately, that has gone away. I think has gone away.

Chris Harris

Yes, right, exactly. So do you think that's going to have much of an impact on the outlook in terms of growth? Or are people still going to be attracted to the other parts of your business, whether it be the Smart Routing order capability or whether it's the lower rate on margin and so on?

Thomas Peterffy

It remains what it remains. Well, as interest rates were coming down, it became less and less relevant already in the quarters preceding this. But of course -- now, it is 0, and we will not be able to give them anything until Fed goes over 0.5%. But to tell you frankly, I do not think that -- I do not hear that, that is as important as the margin rate is. But -- I really don't know. I mean it's a different type of person who -- it's probably a less vocal person who is worried about receiving interest on the cash and the person who is trying to get a cheap margin loan.

Operator

(Operator Instructions) Our next question comes from the line of Mac Sykes from Gabelli.

Mac Sykes

Can you just talk a little bit about the level of volatility, the trade-off between what's good for commission revenue, but still okay for sustaining your customer base?

Thomas Peterffy

Well, that's hard to -- it's very difficult math. Because the higher the volatility, the more trades we do, the customers tend to do less well. And I don't think it's that much due to the volatility, as the volatility tends to be higher when the market goes down, basically. So that's why customers tend to do less well. And so up until the market turned around in the last 2 or 3 days, things were looking pretty good. Of course, it's a different story again. I really can't tell you where the balance is, what is the ideal ratio of volatility and trades.

Mac Sykes

Okay. And then on margin lending, I know you have the card facility. Have you noticed, in the last month, any kind of additional margin loan that would be suggestive of stress versus kind of increase in allocation to the market?

Thomas Peterffy

No. So our margin loans have come down drastically, and they maybe picked up just a tiny bit in the last 2 or 3 weeks, but not much. So no, we haven't seen any of that. No.

Operator

Thank you. At this time, I am showing no further questions. I would like to turn the call back over to Nancy Stuebe for closing remarks.

Nancy Stuebe

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

Operator

Ladies and gentlemen, this concludes today's conference call. Thanks for participating. You may

now disconnect.