Interactive Brokers Group's (IBKR)

Q1 2024 Results - Earnings Call Transcript

April 16, 2024 4:30 PM ET

Executives

Thomas Peterffy - Chairman

Milan Galik - President, CEO & Director

Paul Brody - CFO

Nancy Stuebe - Director, IR

Analysts

Craig Siegenthaler, *Bank of America/Merrill Lynch*

Ben Budish, *Barclays*

James Yaro, *Goldman Sachs*

Daniel Fannon, *Jefferies*

Patrick Moley, *Piper Sandler*

Chris Allen, *Citi*

Kyle Voigt, *KBW*

Macrae Sykes, *GAMCO*

Brennan Hawken, *UBS*

Operator

Good day, and thank you for standing by, and welcome to Interactive Brokers Group First Quarter 2024 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Nancy Stuebe, Director of Investor Relations. Please go ahead.

Nancy Stuebe

Good afternoon, and thank you for joining us for our First Quarter 2024 earnings call. Joining us today are Thomas Peterffy, our Founder and Chairman; Milan Galik, our President and CEO; and

Paul Brody, our CFO. I will be presenting Milan's comments on the business, and all three will be available at our Q&A.

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

This quarter, many of the same major trends we saw in 2023 continued to play out.

With market indexes on the rise worldwide and the popularity of investing growing, we see global interest from investors who increasingly want broad portfolios, with some invested in securities in their home markets, but a more significant portion invested overseas, particularly in US securities.

Product-wise, industry options contract volumes - both individual securities and 0DTE - were up as their popularity continued. Since the pandemic, average daily volume in OCC options has more than doubled, from about 20 million contracts a day in 2019 to 40 million in 2022, and now a record 47.5 million in the first quarter.

CME futures volumes, though down slightly from last year when investors were trading actively on the direction of interest rates, are up versus last quarter and meaningfully above pre-pandemic levels.

And on the equities front, nearly every stock market around the world was up this quarter, with the exceptions of Hong Kong and China. This is a similar pattern to what we saw in 2023.

The popularity of the "Magnificent Seven" technology names continues, which has meant that many investors hold onto their positions and are distinctly not looking to make any changes like selling them and buying new names. The Magnificent Seven are not gripping the index quite as firmly as last year – when they represented 75% of the S&P 500's first quarter performance, versus 43% in this quarter – but their stock price strength means investors have not needed to look elsewhere for gains, and as happened in 2023, industry equities volumes are down again as a result.

What all of the above has meant for our business starts with strong account growth as we add more investors to our platform, both institutional and individual. In the first quarter, we added 184,000 new accounts, second only to the meme stock days of the first quarter 2021. We added, in this one quarter, twice the number of accounts we added in all of 2019. New accounts meant more cash in those accounts, which helped raise our client credit balances to a record $104.9 billion. Our client equity was up 36% to $466 billion, meaning we are approaching half a trillion dollars of client assets.

Volume-wise, we saw strong contract volumes in options, up 24% in the quarter and significantly ahead of the industry; and slightly weaker volumes in futures and equities, similar to the industry. However, rising equity markets have led clients to feel more comfortable with taking on risk, so they took on more assertive positions, which increased our exposure fee revenue; and took on more leverage to bolster their positions, increasing our margin loans – which exceeded $50 billion for the first time since 2021 - and our margin interest income.

This translated into strong financial results. Commission revenue was second only to the meme-stock spike of the first quarter of 2021, and net interest income reached a record, as did total revenues. We always focus on our expenses, meaning our pretax income also reached a record, and our pretax profit margin remained at an industry-leading 72%.

In recognition of this, and as a sign of our confidence in our business model and growth potential, we revisited the amount of dividend we pay, and decided to increase it to $0.25 a quarter. We recognized that the dividend was unchanged since we initiated it at $0.10 in 2011, a time when we had 170,000 accounts, quarterly earnings of $222 million and capital of $4.4 billion.

Today we enjoy a strong capital position, which will allow us to be opportunistic in the M&A space should the right opportunity arise, but we would like to acknowledge our shareholders by returning some capital to them.

In terms of how the business looked on the client front, our accounts and client equity grew fastest in Europe and Asia, similar to what I mentioned earlier - growing numbers of investors worldwide wanting access to international, and particularly US, markets.

Individuals saw the fastest account growth among our five client segments, with introducing brokers and proprietary traders close behind. On the client equity side, financial advisors grew the fastest, followed by individuals and i-brokers.

Proprietary traders had the fastest commission growth, while net interest growth was led by introducing brokers, followed by hedge funds and individuals.

Speaking of introducing brokers, our pipeline of potential clients remains healthy. There are several of these opportunities-- about a couple dozen of them - at various stages. Some are in the testing stage; others have started onboarding so-called “Friends and Family accounts”, where they test the waters and make sure that everything is working; while others are in the prospect stage to figure out what the optimal way for them to interface with us is.

This can take time, since we offer a variety of ways for an introducing broker to come onto our platform: on the one hand, it can be as simple as a broker White-Labeling our services, in which case the startup is very quick; or on the other it can be quite complex for i-brokers who want to have their own client-facing user interfaces, so they take longer to integrate with us. In between these two there are many different setups with varying degrees of nuance and distinctions, as the broker picks and chooses the level of integration and coupling that works best based on its needs and on what it is able to support in-house.

In terms of new product introductions, we had a busy quarter.

We are pleased to introduce our High Touch Prime Brokerage Service, which we announced last week. Hedge funds in our High Touch program will have a dedicated relationship manager, and direct access to subject matter experts as well as to an in-person 24x5, global outsourced trading desk. We consider the mission of the High Touch Service to be “Find a Way to Yes” for our clients’ requests. For those hedge funds listening – I am sure there is a piece of your portfolio you could consider allocating to us.

Regarding our platforms, we introduced IBKR Desktop, a streamlined, simpler-to-use, next-generation desktop trading application, for Windows and Mac. IBKR Desktop is now sufficiently resource-rich, stable and available to our clients. We’ve added multisort screeners, option analysis and other enhancements, to name a few.

For our flagship Trader Workstation, we added a multi-stock tax loss harvesting tool. And for IBKR Mobile, we re-engineered information architecture and navigation from the ground up.

Our registered investment advisor clients got a host of new tools this quarter, including an improved Message Center, a reworked Advisor Portal menu with new features for managing contacts, accounts and portfolios, and ways for the platform to assist with filing their Form ADVs.

Automating substantial parts of the brokerage business for client success is the heart of what we do. There is much we are looking forward to, and much work to be done, as there always is, and as every software developer will tell you. We are as busy as we’ve ever been and continue to see global demand for access to all markets. This trend, and our ability to serve it with a much lower cost structure and a much broader product and tool set, is what sets us apart, and will continue to do so in the years ahead.

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

Paul Brody

Thank you, Nancy. Good afternoon, everyone. I will review our first quarter results, and then of course, we'll open it up for questions.

Starting with our Revenue items on page 3 of the release, we are pleased with our financial results this quarter, as we again produced record net revenues and pretax income.

Commissions rose versus last year's first quarter, reaching $379 million. This quarter, we saw higher trading volumes from our growing base of active customers, particularly in options, which set a new quarterly volume record.

Net interest income also reached a quarterly record of $747 million, reflecting a risk-on environment in the quarter versus last year that led to more margin borrowing as well as higher yields on our margin loans and segregated cash portfolio. These were partially offset by the higher interest paid to our customers on their cash balances. Interactive Brokers passes through to them all rate hikes above the first 50 basis points on their qualified funds, which makes us attractive compared to other brokers and banks and competitive with money market funds.

Other fees and services generated $59 million, up 37% from the prior year, driven by the risk-on positioning of customers in the quarter. As we report in the Financial Highlights on page 1 of our earnings release, the primary factor was an increase in risk exposure fees, with a contribution from FDIC sweep fees as well.

Other income includes gains and losses on our investments, our currency diversification strategy and principal transactions. Note that many of these non-core items are excluded in our adjusted earnings. Without these excluded items, Other income was $31 million for the quarter.

Turning to expenses, Execution, Clearing and Distribution costs were $101 million in the quarter, up 6% over the year-ago quarter on higher volumes in options, which carry higher fees.

As a percent of commission revenues, Execution & Clearing costs were 21% in the first quarter for a Gross Transactional Profit margin of 79%.

We calculate this by excluding from "Execution, Clearing and Distribution" $21 million of non-transaction-based costs, predominantly market data, which do not have a direct commission revenue component.

Compensation & Benefits expense was $145 million for the quarter, for a ratio of Compensation expense to Adjusted Net Revenues of 12%, down slightly from last year's quarter. We remain focused on expense discipline, as reflected in our slowing the staff increase to 3% over the prior year. Our headcount at March 31st was 2,956.

G&A expenses were $50 million, up from the year-ago quarter on higher advertising and legal expenses.

Our pretax margin was 72% for the quarter.

Income Taxes of $71 million reflects the sum of the public company's $36 million and the operating companies' $35 million. The public company's adjusted effective tax rate was 17.2%, within its usual range and similar to the prior year.

Moving to our balance sheet on page 5 of the Release, the consistent strength of our business and our healthy balance sheet supports our raising the dividend from $0.40 per year to $1.00, returning capital to shareholders while still maintaining an ample capital base for the current business and future opportunities.

Our total assets ended the quarter 11% higher at $132 billion, with growth driven by margin lending to both new and existing customers.

We continue to have no long-term debt.

We maintain a balance sheet geared towards supporting growth in our existing business and helping us win new business by demonstrating our strength to prospective clients and partners.

In our operating data, on pages 6 and 7, our contract volumes in options for all customers rose 24% over the prior-year quarter, well above industry growth. Futures contract volumes and stock share volumes declined, as they did across the industry.

The decrease in stock share volume occurred in tandem with clients gravitating to larger, higher quality names, with lower trading in pink sheet and other very low-priced stocks. In fact, despite the decline in share volume the total notional value of brokerage shares traded was up in many markets, particularly in the US.

On page 7, you can see that total Customer DARTs were 2.4 million trades per day, up 14% from the prior year and especially strong in options, followed by stocks and foreign exchange.

Commission per Cleared Commissionable Order of $2.93 was down from last year, due to a mix of smaller average order sizes in stocks and options and larger in futures. Stocks and options contributed higher overall volumes but smaller average order sizes, while futures contributed lower volume with a larger average order size.

Page 8 shows our Net Interest Margin numbers. Total GAAP net interest income was $747 million for the quarter, up 17%, while our NIM net interest income was $762 million, or $15 million higher. In the NIM computation, we include some income that for GAAP purposes is classified as Other Fees or Other Income, but we believe is more appropriately considered interest.

Our Net Interest Income reflects strength in margin loan and segregated cash interest, partially offset by higher interest expense on customer cash balances.

Most central banks around the world, including the Federal Reserve, held interest rates steady this quarter. Exceptions included a rate rise in Japan from negative 10 basis points to zero to positive 10 basis points, and a 25-basis point rate cut in the Swiss franc benchmark.

Reflecting the rise in benchmark rates over the year, our segregated cash interest income rose 26% on a 2% increase in average balances, while margin loan interest rose by 42% on a 19% increase in average balances.

The average duration of our portfolio remained at less than 30 days. With the US dollar yield curve continuing to be inverted, we have been maximizing what we earn by focusing on higher short-term yields, rather than accept the significantly lower yields of longer maturities. This strategy allows us to maintain a relatively tight maturity match between our assets and liabilities.

Securities lending net interest has not been as strong as in prior quarters for three main reasons:

- First, throughout the industry, overall demand for shorting stocks has fallen. An extremely strong stock market, up in the US nearly 30% in the past year, and 10% in the first quarter alone, means fewer people are looking to put on shorts when the overall market trend is so soundly upward.
- Second, there are fewer “hard to borrow” names industry-wide, not only because the overall market is rising sharply, but also due to weakness in some of the drivers relevant to securities lending, including significantly fewer IPOs, low market volatility, and less merger & acquisition activity.
- Finally, as noted on previous calls, higher average interest rates versus prior year periods means more of what we earn from securities lending is classified as interest on “segregated cash”. To more accurately compare our securities lending revenue with last year, we estimate that if the additional interest earned on cash collateral were reported under “Securities Borrowed and Loaned”, it would have been $12 million higher, or $38 million.

Interest on Customer Credit Balances, the interest we pay to our customers on the cash in their accounts, rose on both higher rates in nearly all currencies and higher balances from new account growth. As we have noted many times in the past, the high interest rates we pay on customer cash – currently 4.83% on qualified US dollar balances - is a significant driver of new customers. Fully rate-sensitive customer balances were about $18.5 billion this quarter, versus $17.2 billion in the year ago quarter. And firm equity, most of which consists of interest-earning assets, increased 20% over the prior year.

Now, for our estimates of the impact of changes in rates. Given market expectations of rate cuts sometime in 2024, we estimate the effect of a 25-basis point decrease in the benchmark Fed Funds rate to be a $58 million reduction in annual net interest income.

Note that our starting point for this estimate is March 31st, with the Fed Funds effective rate at 5.33%, and balances as of that date. Any growth in our balance sheet and interest-earning assets would reduce this impact.

About 25% of our customer cash balances is not in US dollars, so estimates of a US rate change exclude those currencies. We estimate the effect of decreases in all the relevant non-USD benchmark rates would reduce annual net interest income by $18 million for each 25-basis point decrease in those benchmarks.

At a high level, a full 1% decrease in all benchmark rates would decrease our annual net interest income by about $304 million. This takes into account rate-sensitive customer balances and firm equity.

In conclusion, we started the year with another financially strong quarter in net revenues and pretax margin, reflecting our continued ability to grow our customer base and deliver on our core value proposition to customers while scaling the business. We raised our dividend in recognition of our financial strength. Our business strategy continues to be effective: automating as much of the brokerage business as possible and expanding what we offer while minimizing what we charge.

With that, I'll turn it over to the moderator, and we'll open up the line for questions.

Question and Answer Session

Operator

(Operator Instructions) Our first question comes from Craig Siegenthaler from Bank of America.

Craig Siegenthaler

I wanted to start with capital management with the dividend hike. The dividend payout is still just 15% of profits. And you have upwards of $15 billion of equity capital, and this is growing each quarter. So, what should our read-through be on the increase? Should we expect additional increases as profits grow each year? And is this somewhat related to a lack of M&A opportunities following the two deals that broke down that you highlighted on the 4Q call in January?

Milan Galik

Thanks for the question. So the $15 billion equity, what you have to take into consideration is that a lot of that capital is needed to run the business. So what remains as usable for M&A is significantly smaller.

Now for the dividend, we are happy with the number that we came up with. It's approximately 15% payout ratio of the earnings. And we believe that this amount of dividend is sustainable, yet it allows us to continue to build the capital that we enjoy to have for the potential M&A opportunities.

Craig Siegenthaler

And just as my follow-up, I wanted to get your perspective on the improving retail engagement backdrop. And we're seeing this at your company and other companies across multiple metrics--margin loan growth, activity rates and trading, organic growth with the account growth acceleration. So I'm just wondering how much upside do you expect from the individual investor business if markets continue to recover here. And we assume 2021 is not repeatable again, but 2023 was likely a floor. So any reference points that would be helpful?

Milan Galik

It's very hard for me to speculate as to how it's going to continue. What we see is increasing engagement of what you would call retail traders in the options markets. And they have become more comfortable with the options. They recognize how flexible of a financial instrument an option is. You can use it to trade on leverage. You can use it to generate income. You can use it to speculate. And as Paul have mentioned a little earlier, we had seen significant growth in the options volume. So that, I think, is going to continue, and the public will get more and more comfortable with the financial instrument.

As to are we going to see the same levels of volume and account growth as we've seen at the beginning of the pandemic? Probably not. If you remember, that was a very different world for a few months. The markets dropped very significantly, and there was a lot of volatility in the market. Everybody was closed at home. There was not that much to do other than watching Netflix shows and open brokerage accounts and start trading, which was then followed by the meme stock mania. So, I do not expect something like this to happen anytime soon.

Operator

And our next question comes from Benjamin Budish from Barclays.

Ben Budish

Maybe one for Paul. You mentioned in your prepared remarks that you were sort of leaning into the shorter end of the curve, given the inversion in the yield curve. I just wanted to check, that sounds pretty consistent with your previously-communicated approach to risk management. But is there anything to read there? Like if the yield curve were to invert and maybe given the knowledge you have of your customer base or the behavior you've observed, does that suggest that at some point in the future, you might be comfortable sort of extending the duration? Or should we assume maybe a more consistent, very, very low risk management approach to the balance sheet?

Thomas Peterffy

Well, I'm responsible for the investment of these monies. So -- and this is Thomas -- as long as the yield curve remains inverted, we are going to stay with our current profile. And at the time when that changes, we will consider extending our maturity depending upon the circumstances.

Ben Budish

Okay. Appreciate that. And then maybe one, just another kind of follow-up to Craig's question on the dividend. I know there's a lot of focus on M&A. And if supposedly, nothing were to materialize, would you consider, in the future, a more, like, dividend growth -- more of a dividend growth cadence? Or are you kind of more hopeful on M&A? Just sort of curious how you're thinking about like the range of outcomes. It sounds like the $0.25 is more fixed rather than like a 15% payout ratio. But I'm wondering if that would sort of change or could it potentially change in the future?

Milan Galik

So if you look at it, it took a number of years to raise the dividend from $0.10 to $0.25. So I'm not saying that it's going to take us another decade to do the same, but we will remain nimble. Capital situation is very important to us. The fortress balance sheet is something that we really enjoy. We believe that it attracts the institutional clients. They see a healthy company despite that we do not have 150 year-long history like some of our big competitors in the hedge fund space. We believe that this rock-solid capital position is attractive to the investors and clients. So we would like to maintain it. So this $1 per year dividend, I think, strikes a good balance. So for now, I think this is it.

Operator

And our next question comes from James Yaro from Goldman Sachs.

James Yaro

My first one's on account growth. Accounts grew 25% year-on-year in the first quarter, and I found the comments on the fact that you're working with a number of i-brokers to potentially onboard on the platform over time, quite interesting. In light of this, maybe you could just comment on how sustainable you view this recent account growth? And maybe if not, maybe you could just break down what customer types or geographies are driving the stronger growth versus a few quarters ago.

Milan Galik

The strongest segment in terms of number of new accounts was the individual accounts, just like what happened in the last quarter of last year. After that, it was the introducing brokers. Now introducing brokers are a very important segment because they help us attract accounts in their local jurisdictions that may be less sophisticated accounts than the ones that come to us directly. We think this is very sustainable. We continue to add tools to our platform. We have a pipeline of introducing brokers that has around 2 to 3 dozen different companies integrating with us as we speak.

We have been talking about the two larger introducing brokers for a while. So we have already announced that the first one of them has been with us and is happily trading, and the second one has finally started operations. They are starting slowly with one single geographical location in the Middle East. They have opened a few dozen accounts so far. They are in the so-called 'Friends and Family' mode, but they're going to be ramping it up. And what we are hoping to do with this global bank-- one of the top 10 global banks out there -- what we're hoping to do is, we are hoping to integrate with them fast going forward, so that new countries can be added.

Now what I have to do here is manage your expectations somewhat. We are dealing with a wealth management branch of a multinational bank that is basically starting a new business of attracting self-traders. So we are not talking about migrating a large number of accounts. But what we are hoping for is a healthy new business for this global bank, that is going to be then gradually onboarding new accounts to us.

James Yaro

Okay. That's very clear. Maybe just on securities lending. Activity there continues to be somewhat subdued across the industry as well as for you. Maybe just your views on what gets this part of the business going.

Milan Galik

Paul, would you like to take this one?

Paul Brody

Yes. Sure. So as usual, there's a baseline that grows as our customer base grows. Having said that, that baseline on the short side has been retreating over the last quite a number of months now, across the industry. There's less interest in shorting stock. So that's on the one side. And then on the other, really, where we do quite well in lending stocks that are in great demand, is sure to drive that as well because we can only lend it to other people who are going short. So that tends to go down.

And we've built great tools for recognizing what the rates should be and taking advantage of them to the best we can. But there are only so many opportunities out there in the market. And there really haven't been any extremely hot stocks, if you will, very high hard-to-borrow rate stocks. And that drives the business as well. So those will come and go. And when they show up, we have the tools to make the most of it.

Operator

And our next question comes from Dan Fannon from Jefferies LLC.

Daniel Fannon

Just was curious in the quarter how many introducing brokers were onboarded to the platform. And then if you could talk about the 2 to 3 dozen, you clearly have some of the large -- you mentioned some large global banks, but maybe just the average size as we think about that opportunity that's in the pipeline currently.

Milan Galik

So the 2 or 3 dozens are integrations, in general. They may be a large financial adviser who have decided to interface with us electronically or they could be introducing brokers. The sizes vary. We typically get introducing brokers that are just starting off. And from time to time, we get an introducing broker that decided to change their prime brokers. In Asia, we have just gotten online a couple of virtual banks. We have finished the integration of the large global bank that I mentioned a few minutes ago. We have an SEC-registered adviser that integrated with us and went online. And then we have many, many in the funnel at various stages. Some of them are still trying to figure out what the best way for them to integrate with us is, while others are busy integrating, and then the third group is already doing some test trades.

Thomas Peterffy

Just for more clarity, if I may add. Many of these brokers open omnibus accounts. So it doesn't necessarily show up as a large number of new accounts because an omnibus broker basically gives us one account while he may have hundreds or thousands or tens of thousands or hundreds of thousands accounts on his end. But we obviously get all the trading volume.

Daniel Fannon

Understood. And then just as a follow-up, another question on capital. You talked about excess capital. We know there's regulatory capital. Then there's what you want to maintain as a buffer to keep the fortress balance sheet. Can you talk about what is excess as we think about not only dividend and M&A in terms of what we -- is potentially for use on an inorganic or capital return?

Milan Galik

So I would say around $6 billion of the capital is the excess that is not necessary to run the business. So that gives you some idea of what the number is. Now are we trying to go out there and spend it fast like a drunken sailor? Of course not. But we are carefully looking at the opportunities that come our way. And to tell you the truth, it's -- we find it difficult. The rule of thumb is that more than 70% of the acquisitions out there do not deliver the promised value. We do not have a lot of experience in the M&A space, so we are extra diligent. And although we were very close to do two very large acquisitions, in the end, we were not able to agree on a price. So this trend can continue, but I am hopeful that we will be able to do an acquisition and speed up the organic growth of accounts.

Operator

And our next question comes from Patrick Moley from Piper Sandler.

Patrick Moley

Thomas, I just caught your interview on CNBC before the call here. It sounded like you didn't think margin loans could really go much higher from here, it sounds like, I think you said historically, maybe the jump that we've seen recently might be an indication that balances are a little bit overextended. So just hoping you could maybe just provide some more color there, how we should think about margin loan growth trajectory in the short term and whether those comments are any sort of indication that -- of what you've seen in April.

Thomas Peterffy

Let me put it this way. I hope that they're not going much higher because I'm a nervous Nellie. When margin loans shoot up, that always is followed by a quick collapse in the market. That's my almost 50-year experience.

Patrick Moley

Okay. All right. That's helpful. And then, I guess, just as a follow-up. You recently unveiled the IBKR Desktop offering. I was hoping you could talk just about what you think that platform offers and what it can mean for account growth going forward.

Milan Galik

Well, perhaps I can give you a little bit of a history first. We created the broker to attract and cater to professional traders-- highly sophisticated accounts. We have developed the desktop-- the original desktop, TWS, for them. We have been adding features to it very fast over the last 20-plus years. So we have a very mature platform that has all the capabilities a professional trader of any kind could wish for.

Now we made that platform available to everybody because our systems are highly scalable. We are very happy to take on accounts of any size. Over time, we have learned that some of the clients find the platform overwhelming. So we have added a web platform. We have added two different types of mobile trader-- a sophisticated one and a less sophisticated one. But the flagship platform is still there, generates a lot of business, but it is getting somewhat older. It has been online for longer than a couple of decades. So we decided to build a brand new one, a brand new desktop, which is going to be -- which is simpler than the original one. It has a reduced functionality set. It does not cater to all sorts of professional traders, but the account holder that it has in mind is the active trader. So that is what that new desktop Trader Workstation is meant to be used by. It went online this first quarter. We continue to add functionality to it. We will continue to do so going forward, but we will try to remain disciplined so that we do not over-clutter it with features that are not frequently used.

The feedback that we're getting from our clients is very good. We are on very -- we talk to them often. We grade the platform in terms of usability-- how easy it is to find features on it, how easy it is to trade on it. So we look at these grades all the time and adjust as necessary. And we are getting questions already for the professional accounts and from i-brokers - when we are going to make the platform available to them, which I consider to be a very good sign because that was not originally the plan but there is already demand for it. So I'm so far very happy with how the platform is performing.

Operator

And our next question comes from Chris Allen from Citi.

Chris Allen

Maybe I wanted to touch on the hedge fund client base. You noted establishing a high-touch PB service. I'm just wondering, did that require additional hiring for that client segment? What kind of progress are you making in terms of kind of moving up some of the tables you talked about in the past? And any additional areas of growth to further penetrate that client segment?

Milan Galik

So this is brand new. We have really just announced it towards the end of last week, and we have notified accounts, 30 or so hedge funds that we have on the platform. We have invited them into this new service-- high-touch prime brokerage service. The goal, obviously, is to attract hedge funds that are larger than, let's say, $100 million of equity, or to keep on our platform the ones that started small, but they have reached the assets level that would allow them to go to one of our larger competitors.

So we have done -- we have had a lot of discussions with the hedge funds with some of the professionals at the prime brokerage space, and we have learned what the hedge funds -- the larger hedge funds expect of their prime broker. And the number one thing that they expect is the white glove or a high-touch service. So that is what this offering is. The eligible hedge fund will have a single point of contact and will receive elevated service from Interactive Brokers. As part of this service, we are establishing a 24x5 global outsourced trading desk for these clients. These clients will get access to subject matter experts from various supporting functional groups: compliance, risk, funds and banking, securities finance and others. So we believe that they will find what they usually expect from the large competing brokers. So this was the first step that we are taking here. And over time, we will see how well it's working.

Chris Allen

Understood. And then maybe one additional quick question. Last quarter, you mentioned looking at efficiency opportunities in areas such as surveillance and customer service. Wondering if you made any progress on those fronts? Any other areas you can wring out some efficiencies moving forward, which, I mean, obviously, given your margin, it's -- you're already incredibly efficient. So it's asking a lot a little bit, but just any color on that would be great.

Milan Galik

We are continuously working on our electronic surveillance. As a broker, it is our obligation to surveil the trading activities and the movement of cash. We built our systems in-house even though a lot of our competitors use third-party software. We looked at a few different third-party software packages that are available. We found them too expensive and not really suitable for us because our business is global, so that is why we decided a few years ago to build our own. And the system generates alerts, and the alerts are serviced by human operators, which deem the alert either false positive or true positive. And if the alert points to a problem, then they either file a report with the regulator or they act according to the script that we have given to them. We have a significant number of operators that use the system. And our goal is not to add more as the number of accounts increases, as the volumes increase and as the cash moves increase. So that is the goal. And now how we're going about it is continuously improving the platform, reducing the number of false positives, deploying some artificial intelligence techniques. So that is what we have been doing for the past year or so.

Similarly, on customer service, our goal is not to have to grow the employees that work for the customer service department in proportion with the number of new accounts that we add. Now how are we exactly accomplishing that is-- that we are making the service self-service. We are trying to reduce the number of phone calls our customer service department receives, the number of chats, the number of tickets by making it very easy or much easier for our clients to find self-help through the platform that we give them. And here, again, we are using various techniques. Lately, we have dabbled into generative AI, and we are seeing good results. But this is a process that will continue, that we will always be working on.

Operator

And our next question comes from Kyle Voigt from KBW.

Kyle Voigt

Milan, maybe just a follow-up on that prior question on efficiency. You noted harnessing AI potentially in the customer service side. I guess, any progress here in terms of are you rolling out new generative AI bots? Is that part of the -- and is that really just to help your customer service reps? Or is that directly going to be deployed to end users that are on the platform-- retail users on the platform?

And then on the revenue side, as it pertains to AI, is that being utilized by any of your clients at all in trading or deploying trading strategies? I'm just wondering if you think there could be a real revenue opportunity here as well.

Milan Galik

The first question was about who uses the AI capabilities that we have developed for customer service-- it is both our customer service representatives as well as our clients. When they ask the question through our platform, we map the question that is in natural language into the most suitable set of documents that have the ability to answer that question. And then we apply some generative AI algorithms to the set of documents that we find, and we return an answer to the client. And something similar happens inside when the customer service representatives of Interactive Brokers use the system.

Now as far as the trading using the AI, we do not yet have anything available for our clients in terms of the platform utilizing the AI. But we have discussions in-house, and we have some, I believe, good ideas that we're going to be working on going forward.

Kyle Voigt

Understood. And then just -- just a follow-up on the expenses as well. You noted the headcount has slowed partially due to what you kind of just laid out. It's only up 2% or 3% year-on-year. It sounds like you're going to try to hold that roughly flattish or at least at a slower level looking forward. But when we think about compensation, it looks like that's up 10% in the first quarter. I think fixed expenses were up roughly 17% year-on-year. So I guess, given some of the new initiatives like this high-touch prime brokerage offering, should we expect this divergence in kind of fixed expense growth versus the headcount growth to persist at least over the next few quarters?

Milan Galik

So the headcount growth is easier to keep in check. In terms of compensation, we have to deal with a couple of different factors. One of them is inflation. Their lives are getting more expensive, and we have to pay our employees more. And also the talent, the really good talent is getting more expensive. There are lots of tech and financial companies out there fighting for good talent, and we need to make sure that we keep the employees with Interactive Brokers, and we are able to attract the new ones. And the recent historical trend has been such that the prices of the human resources have been going up.

Operator

(Operator Instructions) And our next question comes from Macrae Sykes from GAMCO.

Macrae Sykes

I just -- it goes without saying, I think Rich Repetto was a great addition to the Board. I've long admired his work in the industry.

My question is around the impact of zero-day options on the marketplace. I can understand they're really good for liquidity and choice. But is there a potential to kind of burn out investors, given the obvious churn?

Milan Galik

Well, every great tool can be misused and requires some amount of responsibility, if you will. The same can be said about one-day options. Now what Thomas usually says, when facing a question about zero-day options, is that we have always had them. When you think back when only the monthly options were tradable, on the expiration date, those options were zero-day options. Then the exchanges started listing weekly options, and then we had this event of an option becoming a zero-day option more frequently. And now we have them every day. So it is not something that came out of nowhere. It's just -- there is a lot more of it available now.

These options -- CBOE has recently issued a document justifying their existence and reiterating their power and their use. And they have referred to the ability to hedge quickly, the ability to get into a position that is sensitive to a market move very quickly. So it is a good powerful tool. But as I have started my paragraph, my answer, it can be misused.

Macrae Sykes

And on the prime brokerage revenue, understand the balances, trading. Are there any ancillary kind of fee revenues that would go with this high-touch service? Or is it just bundled in terms of using the platform?

Milan Galik

This is mostly about convenience, especially when you look at the global outsourced trading desk. We found that some hedge funds would like to take advantage of our ability to provide global products to them. They do not want to be up and trading at their desk 24 hours a day, and they would welcome an opportunity to give us an order during the day -- during the American day, to work an order during Asian hours in Asian markets. That is what we're trying to outsource.

So obviously, we're going to charge a little more for that type of trading than the fully electronic self-trading, but it really is about the convenience. It is about attracting larger funds and keeping around the ones that started small but grew big.

Operator

And our next question comes from Brennan Hawken from UBS.

Brennan Hawken

My questions have been asked.

Operator

And our follow-up question comes from Craig Siegenthaler from Bank of America.

Craig Siegenthaler

So Kyle asked a similar question, but let me ask it in a different way. On AI, do you think artificial intelligence could be a driver of the next leg of volume growth and potentially be a commission accelerator? And I'm curious how your clients are using AI to trade automatically today.

Milan Galik

Can it act as an accelerator? It absolutely can in the long run. Today, for a typical investor, it takes a while to decide what kind of a trade they want to do. There is usually some research involved, either fundamental or some technical analysis. Imagine in the future, you will have an

AI engine available to you that is going to be able to quickly answer your questions, quickly do analysis for you, even recommend opportunities that you normally don't look at. So I believe that is going to accelerate the trading in the future.

And as to your other question, how are our traders-- our trading clients using the AI today? Maybe they have their own tools. But at the moment, we are not offering any AI-based trading tools to them. But in the future, we're planning to.

Craig Siegenthaler

Great. And I actually just have one more follow-up on 0DTE SPX. This became a really big product last year. I'm just wondering if you can talk about which of your client segments, you're seeing the highest penetration rate of 0DTE?

Milan Galik

I have to tell you the truth, we do not look at it from the point of view of which client segment trades them the most for a very simple reason. It does not make a lot of difference to us. We charge our public transparent commission to all segments the same way. So for that reason, we are not really focusing on that.

But I would tell you that just from reading newspapers out there, the zero-dated options, they became a phenomenon that is participated on by the retail clients. So I would say it's both the professionals and the retail.

Operator

And a follow-up is Kyle Voigt from KBW.

Kyle Voigt

Just a modeling follow-up for Paul. When we look on an adjusted basis, the other income line of $31 million came in higher than expected. Was that increase, in that line specifically, mostly driven by better market-making activity?

And then in the footnotes, I also believe you disclosed there was roughly $9 million of interest-like income that flowed through that line specifically. That is included in your NII walk, but it ends up in an other income bucket on the income statement. Is that just interest income on capital that's deployed for the market-making business? Or is that being generated by something else?

Paul Brody

Right. So the second question first. Yes, it's a shift. Sometimes we invest our house capital in instruments that don't generate interest from a GAAP accounting standpoint, and they end up being reported in other income. So yes, to that point.

And also, yes to trading activities produced a better result this year than certainly in last year's quarter and somewhat better than in the fourth quarter as well. So we're not unhappy with our very small remaining market-making operations.

Kyle Voigt

And is that operation mostly focused in the U.S. or internationally? Can you just remind us what that has kind of exposure to for modeling?

Paul Brody

Yes. We operate outside the US.

Operator

And I am showing no further questions. I would now 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 also be posting a clean version of our transcript on the site tomorrow. Thank you again, and we will talk to you next quarter end.

Operator

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