Interactive Brokers Group's (IBKR)

Q2 2024 Results - Earnings Call Transcript

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Executives

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Operator

Hello and thank you for standing by. Welcome to Interactive Brokers Group Second Quarter 2024 earnings call. (Operator Instructions) I would now like to turn the call over to Nancy Stuebe. You may begin.

Nancy Stuebe

Good afternoon, and thank you for joining us for our Second 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 on 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. 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, world markets began to move in divergent ways as stock markets, central banks and geopolitical crosscurrents played out.

The S&P 500 rose this quarter, while other previously strong markets, such as Europe, Canada, Japan, China and Australia, all declined after positive first quarter market results.

Further differences were seen on the central bank front, as the US Federal Reserve chose to maintain benchmark rates this quarter, while in other developed countries – like Canada, Europe and Switzerland – central banks started to cut rates, beginning with 25 basis points.

One ongoing fact that has not changed, however, is the popularity of investing, with global interest from investors who increasingly want broad portfolios and international access. The secular global investment trend remains that investors allocate some of their portfolio to securities in their home markets, but a more significant portion to overseas securities, particularly in the US.

Product-wise, industry options contract volumes were ahead of last year, though down against a blistering, industry-record first quarter.

Similar to options, CME futures volumes, though up 14% versus last year, were down 2% in the quarter for the industry, primarily on investors trading less actively using interest rate futures on the direction of interest rates, than they had in the first quarter.

On the equities front, US industry volumes, though up versus last year, were down a fraction of a percent in the quarter. In equities, the "Magnificent Seven" once again were the main drivers of US market performance, contributing nearly all of the S&P's gain this quarter, and with just two stocks – Nvidia and Apple – responsible for ¾ of that. As in prior recent quarters, we see investors holding onto their positions and not looking to make changes like selling them and buying new names. Industry equities volumes were flat to down again as a result.

Against this backdrop, all our volumes were up for both the quarter and the year, as our clients remained active in all product categories.

The continuing trend towards global investing across countries and product type, by all kinds of clients, continues to show up in our numbers. We saw strong account growth as we added more investors to our platform, both institutional and individual, across all geographies.

We added 178,000 new accounts this quarter, behind only the meme stock days of the first quarter 2021 and the first quarter of this year. New accounts meant more cash in those accounts, which helped raise our client credit balances to a record $107.1 billion, even as our volumes show that our clients put their money to work in the markets. Our client equity was up 36% over last year to $497 billion, which was just shy of half a trillion dollars in total client assets, a figure we ended up exceeding this month.

Rising equity markets and the anticipation of lower rates 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 both our margin loans – which reached a record $55 billion this quarter - and our margin interest income.

All of which 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 net revenues. We maintained our focus on expenses, meaning our pretax income also reached a record, and our reported pretax profit margin reached at an industry-leading 72%, with adjusted pretax margin of 73%.

In terms of how the business looked on the client front, our accounts and client equity once again 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.

Of our five client segments, the fastest account growth was seen with Individuals, with introducing brokers and proprietary traders not far behind. On the client equity side, financial advisors once again grew the fastest, followed by i-brokers and individuals.

Commission growth was fastest for our Proprietary traders, while net interest income growth was led by hedge funds, followed by introducing brokers and individuals.

Speaking of introducing brokers, our pipeline of potential clients remains healthy. We were pleased that HSBC publicly announced their HSBC WorldTrader offering, powered by Interactive Brokers, in June. There are several other 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 the optimal way for them to interface with us.

As we’ve mentioned and as bears repeating, this can take time, since we offer a variety of ways for an introducing broker to come onto our platform, some quicker than others, and all dependent on what the broker wants. So while we expect growth to continue in this area, predicting the timing of it is not something we can do.

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

We strengthened our ATS by adding new liquidity providers and order types. Each quarter we are executing more trades on our ATS, connecting our client orders with liquidity providers and helping them save on execution costs.

IBKR Trader Workstation remains our premier product for professional clients, yet we understand that different client types have different needs: we see that many Financial Advisors find their needs met by our more streamlined, targeted web platform. The IBKR Financial Advisor Portal has been enhanced with a new Portfolio summary screen and a specialized Order Allocation Tool. Further, our PortfolioAnalyst online performance analysis tool added a Retirement Planner for FAs, as well as for individuals and introducing brokers, to better serve our clients' long-term plans.

We added several trading venues, including Korean derivatives trading on Eurex, CBOE European derivatives, and overnight trading in US corporate and government bonds. We launched securities lending for Swedish stocks, made our crypto offering available in the UK, and launched recurring investment in Canada. We also introduced Conditional Orders on our mobile platform, a much-requested feature that can be set to initiate or cancel an order based on a variety of triggers.

Auto-FX is now the default setting for clients with cash accounts wishing to trade securities in a currency different from their account's. With Auto-FX, clients can place an order for a security without manually performing a foreign currency conversion. We handle the FX transaction automatically. Although we are not the only broker offering this feature, IBKR's implementation offers significant advantages for cost-conscious and active traders:

- First, we only charge 3 bps, compared to up to a full percent by our competitors.
- And second, we charge only if a trade that a client makes results in a negative currency balance. This means that clients who trade multiple times daily can significantly reduce their costs because IBKR does not charge FX conversion on every trade, while other brokers do.

Our High Touch Prime Brokerage Service, which we announced last quarter, has also gotten off to a good start. Clients benefiting from this service have commented that they have an easier time interfacing with us, and appreciate having their own point person and specialized attention to their particular issues. As one of our new High Touch clients said, "this service makes the decision to disregard pitches from other prime brokers easier." We are considering other improvements to make our prime brokerage offering even more compelling.

I look forward to continuing the work on the many projects we have lined up. Much is planned for the rest of 2024 and beyond which we are eager to develop, test, and introduce. We have a healthy pipeline of new business and new initiatives, and are eager to share these with you as they come to fruition.

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

Paul Brody

Thank you, Nancy, and welcome everyone to the call. Thanks for joining.

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 2nd quarter, reaching $406 million, second only to that of the pandemic-era first quarter of 2021. This quarter, we saw higher trading volumes from our growing base of active customers, with options setting a new quarterly volume record and futures reaching their second highest volumes ever.

Net interest income also reached a quarterly record of $792 million, despite only modestly higher benchmark rates in most major currencies and a recent taste of rate cuts in a few others.

A more pronounced risk-on environment in the quarter led to a significant increase in margin borrowing, and higher yields on our margin loans and segregated cash portfolio on a year-over-year basis provided tailwinds to these results. These increases 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 $68 million, up 45% 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 contributions from payments for order flow from exchange-mandated programs and 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 a $24 million gain for the quarter.

Turning to expenses, Execution, Clearing and Distribution costs were $115 million in the quarter, up 24% over the year-ago quarter predominantly from a $9 million increase in the SEC regulatory fee rate that began on May 22nd, and on higher volumes in options and futures, which carry higher fees. The SEC fee is a pass-through to customers, so it does not impact our profitability.

As a percent of commission revenues, Execution & Clearing costs were 23% in the 2nd quarter for a Gross Transactional Profit margin of 77%. We calculate this by excluding from "Execution, Clearing and Distribution” $20 million of non-transaction-based costs, predominantly market data fees, which do not have a direct commission revenue component.

Compensation & Benefits expense was $146 million for the quarter, for a ratio of Compensation expense to Adjusted Net Revenues of 11%, down from 13% in last year’s quarter. We remain focused on expense discipline, as reflected in our slowing the staff increase to 1% over the prior year. The year-over-year increase included a decrease in Compliance staff, as we went into full operational mode with our in-house developed Compliance system, offset by increases in client-facing and software development roles. Our headcount at June 30th was 2,951.

G&A expenses were $52 million, down from the year-ago quarter. Without last year’s unusual legal reserve, G&A was up 33%, or $13 million, primarily on higher advertising and, partly, on legal expenses.

Our pretax margin was 72% for the quarter as reported, and 73% as adjusted.

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 16.5%, slightly below its usual range.

Moving to our balance sheet on page 5 of the Release, our total assets ended the quarter 13% higher than the prior year quarter-end at $137 billion, with growth driven by margin lending to both new and existing customers. New account growth also helped drive our record customer credit balances. And we believe that our strong financial standing and competitive interest rates provide customers with an attractive place to hold their idle cash.

We continue to have no long-term debt.

Healthy profitability drove our 20% increase in firm equity over the prior year. 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 customer contract volumes in options rose 35% over the prior-year quarter, well above industry growth, and reached a new record high for IBKR. Futures contract volumes rose by 10%, reflecting our second highest volume ever; and stock share volumes rose by 26%, as they did across the industry.

Stock share volume generally increased in tandem with clients gravitating to larger, higher quality names, with relatively lower trading in pink sheet and other very low-priced stocks, in our largest markets.

On page 7, you can see that total Customer DARTs were 2.4 million trades per day, up 28% from the prior year and especially strong in options, followed by stocks and futures.

Commission per Cleared Commissionable Order of $3.01 was down from last year, due to a mix of smaller average order sizes in stocks and futures and lower average commission per contract in options. Volume and aggregate commissions were higher in all product classes, but the specific contracts traded by our customers have different size and commission characteristics.

Page 8 shows our Net Interest Margin numbers. Total GAAP net interest income was $792 million for the quarter, up 14% on the prior year, while our NIM net interest income was $805 million, or $13 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.

Only recently, a few central banks made 25 basis point cuts to their benchmark rates, including Europe and Canada; Switzerland cut its rate both this quarter and last. Others, including the Federal Reserve, held interest rates steady.

Reflecting a modest rise in benchmark rates over the year, our segregated cash interest income rose 6% despite a 2% decrease in average balances, while margin loan interest rose by 38% on a 31% increase in average balances.

The average duration of our US Treasury portfolio remained at about 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 well over 20% in the past year, 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 static 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 reflect all the income we earn from our securities lending business, we estimate that if the additional interest earned and paid on cash collateral were included under “Securities Borrowed and Loaned”, then total net revenue related to our securities lending business would have been about $194 million for the quarter; versus $190 million in the year-ago quarter; and $167 million in the first quarter of 2024. This additional revenue would be reclassified from interest on segregated cash and interest paid on customer credit balances, so it would have no effect on our overall NIM.

Interest on Customer Credit Balances, the interest we pay to our customers on the cash in their accounts, rose on both higher rates in many currencies versus last year, and higher balances from new account growth. As we have noted 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 $18.6 billion this quarter, versus $17.3 billion in the year-ago quarter. Together with firm equity, most of which consists of interest-earning assets, total fully rate-sensitive balances were approximately $30.7 billion.

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 $59 million reduction in annual net interest income.

Note that our starting point for this estimate is June 30th, 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 $307 million. This takes into account rate-sensitive customer balances and firm equity.

In conclusion, we posted 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. Our business strategy continues to be effective: Automating as much of the brokerage business as possible, continuously improving and expanding what we offer while minimizing what we charge.

With that, we will now open up the line for questions.

Question and Answer Session

Operator

(Operator Instructions) Our first question comes from the line of Ben Budish from Barclays.

Ben Budish

Hi, good afternoon. Thanks for taking the question. I was wondering if you could unpack the year-to-date account growth a little bit more. You gave some color on the faster-growing customer segments, but in terms of individuals, can you maybe talk a little bit about what the average customer looks like? How do they compare to the back book of customers? It sounds like they're bringing over ample new cash while still deploying into the markets. So just curious if you could talk about the average size, what the activity levels are like. And then maybe, similarly on the hedge fund side, talk a little bit about your progress there and what your expectations are over the rest of the year and into ‘25?

Milan Galik

Thank you for your question. So usually, the new accounts that we get in each quarter, they take a little while to bring on all the assets that they intended to bring. So it takes a little while for us to see the entire impact. But what can give you some idea is the fact that the new accounts went up by 28%, commissions by 11%, net interest income by 18%, DARTs by 28%, and the assets by 36%. So if you look at the S&P 500 year-over-year is up 23%, QQQ is up by 29%. So if you look at all these numbers together, that will give you some idea as to how much in assets, how much cash they brought.

Ben Budish

Thanks. That's helpful. If I could ask a follow-up. Just on a comment you made, Paul, I think you mentioned something about $18.6 billion of rate-sensitive cash, but total fully rate-sensitive balances were a little over $30 billion. Could you clarify what you meant there, the difference between the two?

Paul Brody

The rest is rate-sensitive firm equity. So our equity is $15 billion plus, of which certain amount of it is sensitive to interest rates. And that makes up the rest.

Operator

Our next question comes from the line of Craig Siegenthaler of Bank of America.

Craig Siegenthaler

Thank you and good evening, everyone. And congrats on the first HSBC launch in the UAE, so let me just start there. I had a mechanical question on the launch. When this white-labeled offering is launched in a specific region, are you replacing an existing HSBC offering so there's a large inflow of client equity and client cash with a large number of accounts on day one? Or is it smaller, with the product being cross sold to existing clients with a longer ramp process?

Milan Galik

The answer for the UAE is that we are going to be onboarding their existing business from Pershing. The migration should be happening sometime in August, if everything goes well. We're talking approximately around 10,000 accounts. The other countries that HSBC is going to be onboarding with us, they do not result in immediate inflow of new accounts. HSBC, as you know, has significant banking presence in a lot of countries and their vision is to offer, to those banking clients, Interactive Brokers-powered platform. So these are greenfield businesses. So 10,000 coming from the UAE existing migration, and then going up gradually. Other countries going gradually, up from zero.

Craig Siegenthaler

Thank you, Milan. Just as my follow up on the same topic. Nancy referenced that there's a couple of dozen regions that are currently testing or onboarding “Friends and Family.” I was curious, what percentage of the total accounts that you expect to win? Does this first batch that includes the couple of dozen regions represent? Or does this couple dozen regions, is that the total account package that you expect to win through this HSBC relationship?

Milan Galik

Nancy was talking about the couple of dozen introducing broker prospects and she explained how they are all in various stages. It's probably a handful, maybe a little more are prospects, then some have already opened accounts and are doing connectivity tests, others are in this “Friends and Employees” stage. I would expect us to win most of the prospects. We have been normally very successful in winning them. The conversations that we have progressed well. They’re typically about the methodology that is going to be used to onboard them— are they going to be fully disclosed or one-way disclosed, is it going to be an omnibus. So the ones that we count in this funnel, those are already serious conversations. Maybe one or two will not materialize, but most of them will.

Operator

Our next question comes from the line of James Yaro with Goldman Sachs.

James Yaro

Good afternoon and thanks for taking my question. I just wanted to touch on the enhanced offerings for hedge funds. I think in April you announced the High-Touch Prime and global outsourced trading. Maybe you could just touch on how those initiatives have gone, the early readings from that? Has it accelerated your growth rate with hedge funds so far? And then when you talk about other enhancements to your prime brokerage offering, would these be more high touch offerings, or would they be tech-enabled, or mix of both? And should we think about any ramifications from those to your margins?

Milan Galik

So the enhancement was very well received. We have onboarded approximately— exactly 30 hedge funds onto this white glove enhanced service. The feedback is good. The hedge funds really enjoy having a point person that they can talk to. They get access to various experts within our organization through this single point of contact. So they really do like the experience. We cannot see any change in the numbers, and we did not expect to see one. You may recall that the reason why we did this was to increase the likelihood that the hedge funds as they cross the $100 million threshold, which seems to be the magical number when the large primes become interested in them, we wanted to increase the likelihood that they would stay with us. So time will tell whether this was a good bet; I'm hopeful that it was.

As to further enhancements, we continue the discussions with the hedge funds. Obviously, the order desk is online. It's a global order desk: we take orders from the hedge funds, so that they do not have to sit at their desks and maybe execute orders in the middle of the night. There are still discussions about capital introduction. We have had our own capital introduction program online for a long time. There is demand, or there are requests, for us to make improvements to it. That is the current state.

James Yaro

Okay, great. That's very, very clear. Maybe just one other as a follow-up related to hedge funds. I think prime brokerage net leverage at the very largest banks is up substantially. But securities lending for you and certain other retail-skewed brokers has remained fairly soft. Just any views on perhaps why there is that dichotomy? Is it that retail short selling activity is light, whereas large hedge funds are perhaps adding to shorts? And maybe if you don't have a view on that one, maybe just when you look at your hedge fund business— your prime brokerage business, has there been increased short selling activity for those clients?

Milan Galik

Well, I do not personally look at this as broken down. Maybe Paul has some color that he can share with you. What I can tell you is that the hedge funds on our platform increased their leverage. They borrowed a larger amount of money from us and that is partially the reason why the net interest income is up and obviously the balances increased to $55 billion this quarter.

Operator

Our next question comes from the line of Dan Fannon with Jefferies.

Daniel Fannon

Hi thanks. Good afternoon. Just another question on the backlog with the introducing brokers— the couple of dozen that was cited. I guess, how would that compare to say a year ago? And then generally, who are you competing with to win this business? Is it just internal offerings or are there other peers that you are typically going up against?

Milan Galik

The pipeline looks pretty much the same size. I think a year ago it was roughly the same number. As to whom we are competing with, well, our offering is very unique. As you know, we cover the world in terms of access to the exchanges in various countries. So the introducing brokers or introducing broker prospects, they like that. They like the fact that we can offer them access to local markets, to regional markets, to overseas, and especially United States. There are some competitors in this space, especially in Asia and in Europe. Those are our competitors. Those are the firms that we compete with.

Daniel Fannon

Okay, that's helpful. And then a couple of quarters ago, Thomas talked about declining interest rates maybe being pro-growth of your business in terms of utilization of things like margin and account growth and trading. But given the run we've had this year in the market, the growth in accounts, growth in margin balances, does that view still hold if we do get some Fed cuts going forward or have we maybe overshot here in the context of how your client base is performing currently?

Milan Galik

It's difficult to tell what will happen. What I can tell you is that if the Fed lowers the interest rate by 25 basis points as is widely expected at this point, our annual net interest income will decrease by $77 million. So that is going to be the impact.

The lower interest rates obviously spur economic growth, but there is going to be a lot of uncertainty. We still have two wars that are in the Middle East and in Europe. There is election season. We are going to have a new administration. There is a lot of uncertainty as to how that is going to play out or what exactly that's going to mean. Even if the Trump ticket wins the election, it's unclear exactly what the impact is going to be, because there is chatter about increased tariffs which can in turn increase inflation. So there is a lot of uncertainty out there. Uncertainty usually results in volatility and higher trading volumes, as customers want to put on risky positions or they want to do hedges or sell out their winners. So it's really difficult to tell, but I do not see a good reason to believe that the trading activity will dramatically slow down.

Operator

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

Kyle Voigt

Hi, good morning— sorry, good evening. First one just on ForecastEx. I know that received CFTC approval last month, but I think there were some subsequent press around saying the launch may be delayed. Just wondering, any update on the timing of a launch there? And then maybe just speak about the opportunity you see for forecast contracts more broadly and size and opportunity a bit for us.

Milan Galik

So yes, there is a slight delay. We realized that there is a little bit more work that we need to do, bookkeeping work that has to do with booking of swaps. That is the license that the CFTC granted to ForecastEx, so there is a bit more work that we need to do. We're hoping to launch in the middle of August.

As to the opportunity, we are hopeful that a similar thing is going to happen as what we witnessed in the area of security— equity options. Remember, when it started back 40 or more years ago, it was something brand new. And today it is a really, really big industry— betting on economic indicators, on climate events, in general, events that can affect the performance of your portfolio and events that our customers may want to hedge themselves against. We believe that is going to become over time, a very popular and growing area.

Kyle Voigt

Great. Thank you for that. And then I just had one follow-up for Paul. Just to be super clear about the new securities lending disclosures that you provided today. So hypothetically, if we retroactively applied a 0% benchmark rate globally to the entirety of the second quarter, I just want to know that the securities revenues that you would have reported would have been $194 million instead of $25 million. Is that correct? Or formulaically is that how the pricing methodology would have worked, just would have shifted the bucket into sec lending from seg cash revenue?

Paul Brody

Yeah. It's a slightly more complicated question. But if you assume zero benchmark, then all of the securities lending trading itself becomes just the borrow fee, which is high for a hard to borrow stock and low for a general collateral stock. Likewise, as we used to have when the rates are almost zero, if we were to lend a stock, taking the cash collateral and then reinvest the cash collateral in a very low interest rate environment, that cash collateral earns very little.
So one of the reasons why we have decided to offer this presentation is because it didn't make any difference when the rates were near zero—it didn't make much difference.

But now the rates are 5% plus, it's more helpful to see all sides of the equation that are related to securities lending, right? The simplest example being we lend a customer stock. We take in the cash collateral. Now when we reinvest it, it's at more like 5.4%, and that obviously plays a role. Up until now, we have been and— in our net interest margin presentation that shows up in segregated cash and securities. But one could think of it as being related to securities lending. And so all we're talking about here is reclassifying that just from a management perspective. It's a different way to look at it.

Operator

Our next question comes from the line of Patrick Moley with Piper Sandler.

Patrick Moley

Yes, hello. Thanks for taking the question. So I had one on options. Options volumes for you were up 36% year over year in the second quarter, I think. Can you just speak through the growth you're seeing there and maybe break it out and help us understand, looking across geographies where that growth is coming from? And I think Thomas has spoken in the past about expecting higher derivatives volume growth overseas. How big of a driver do you think that can be for your business and what kind of advantage you think you have over some of your publicly traded peers here in the US who have recently spoke about being more deliberate with their efforts overseas.

Milan Galik

So obviously, the zero day to expiration option, that is where a lot of volume has been happening. And weekly options, that's where a lot of volume was taking place. As far as the zero-day options, it’s the cash-settled index options. We had seen Eurex adding shorter term options and I think other exchanges will follow. So this phenomenon is going to increase in other regions, not only in the United States. As far as geography, it is the US option volumes that are dominant, there is obviously trading in Asia and Europe, but the US still dominates. Even our foreign overseas investors gravitate towards these instruments. It is to some extent the job of the regional exchanges to make the contracts popular and increase the offering and the volumes. But our technology is there, we have the connectivity, we have the access to the clients, so we are making them available to the clients. I guess that is how I would answer your question.

You asked about what the advantages are. So our platform is originally designed for professional and active traders. The platform is superb, it delivers results. The very active traders on our platform attest to it. We have since then implemented very good screens on the mobile trader as well as on the web platform. So we cover, in terms of the platform, the entire spectrum of clientele, from the active trader all the way to the beginner. We have tools that help our clients initiate positions. We have a wizard; we have had the wizard for a very long time. For someone who is not yet accustomed to what the possibilities of options trading are, they can enter their forecast. For example, “By this date, I expect NVIDIA stock to be up by 10%. What are the trading strategies I could consider?” And the wizard responds with these different choices that the client can then choose from. So I think we're very well positioned to take advantage of the increased popularity of options trading overseas.

Patrick Moley

All right. That's great color. And then just a quick follow up on the NYSE loss. Can you speak—was there any impact on the tax rate this quarter from that? And then just looking forward, is there any possibility at all that any of that could be recovered? Thanks.

Milan Galik

As far as the recovery, the answer is unfortunately, no. We have looked at what can be done. When the mishap took place, we immediately contacted the exchange, and we requested that the purchases at extremely high prices be busted— we asked that those trades be busted. Unfortunately, the industry rules are written in such a way that the New York Stock Exchange was not able to bust those trades. And we have also pursued the opportunity to ask for a compensation payment under the Rule 18. Rule 18 has also very significant limitations including how much can be paid in terms of compensation. We looked at other avenues. We have decided that we are very unlikely to be successful in recovering the money that we have lost here.

What we are going to do is, we are going to be proposing changes to how such events should be handled in the future. Because it is our strong belief that not only the New York Stock Exchange, but also the lead market maker, the specialist handling the Berkshire Hathaway, did not do an adequate job here and some rule changes need to be done. And we are in the process of writing a letter to the SEC proposing very concrete modifications to the rules that would benefit not only us, but the entire industry. And when the letter is written, we will post it on our website. As far as the tax implications. Paul maybe you can reply to that one.

Paul Brody

Yes. Could you repeat the question on the taxes?

Patrick Moley

Yes. Just if there was any tax implications from the loss or anything worth calling out this quarter going forward?

Paul Brody

It just flows into gains and losses. And so there's nothing about it that would not be taxable as a general expense, it is. And there were no other real notable items. Every quarter, there are some tax items that may not apply directly to the current quarter like tax credits, things like that. So these come and go, that primarily is what causes minor fluctuations in our overall effective tax rate.

Operator

Our next question comes from the line of Macraes Sykes with GAMCO.

Macrae Sykes

Oh great. Thank you. I have two questions about the IBDs, and I'll just ask them together. I was wondering if you could kind of give us an update on the TAM around the IBDs, whether you know how many IBDs are out there globally, how much they custody? Anything to kind of point to the opportunity there, and I know it's evolving. And then the second thing is with respect to working with these new relationships, is there any difference as you set up a white label operation with an individual company such as HSBC in terms of the costs associated or the economics. So is there a difference between handling a 10,000 account IBD or with one that's 50,000? And just are there any dis-synergies with your platform in terms of having to handle kind of more bespoke operation? Thank you.

Milan Galik

I believe there are a lot of prospects out there— introducing broker prospects. There are investment companies, especially banks, that have very large numbers of clients and they are pursuing the opportunity to offer brokerage services to them. Some of them tried to go it alone. Some of them, a small number succeed. Some give up when they realize that the undertaking is greater than they expected, and then they turn to Interactive Brokers and maybe another competitor for help. That is what we see. Another thing that we see is that there are brokers that just start from zero, they realize that there is an opportunity to offer localized service to the clientele in a specific country. They think that they can do a good job advertising, running customer service, and serve the local clientele. That is something that we also see. There is going to continue to be a large number of these, I believe.

As to the economics and scalability, that varies. We onboard some introducing brokers as an omnibus account relationship, which means it's the same single account or let's say, up to 10 different accounts because they like to separate it by the residence of the clientele, whether it's a margin account or a cash account. So it's a very small number of accounts, a handful up to 10, covering many thousands of individual accounts on their platform. So that's sort of one extreme. The other extreme is that we carry one specific account per end client, and we have both of these relationships. The economics are different. The omnibus accounts obviously tax our infrastructure much less. We do not have to deal with the KYC and AML of the individual clients. On the other hand, the relationships where we carry sub-accounts for individual clients, the economics are a little better, but which costs us more computing power, and our customer service gets involved to an extent. And we have to deal with the KYC and AML. But we are open to take both and we are usually providing a helping hand to the prospect deciding what type of setup would suit them the best.

Operator

Our next question comes from the line of Chris Allen with Citi.

Chris Allen

Yeah, evening everyone. A little bit of a cleanup question. Just on the NII sensitivity to rate cuts. I believe, Paul, it's a $59 million reduction, but Milan noted it was $77 million. So just wondering which is correct. Maybe $77 million includes all global rates or the $59 million US? Just any color there would be helpful.

Paul Brody

Yeah, that's exactly right, Chris. So the $59 million is an assumption that only the Fed moves the US dollar rate, and the $77 million it makes a very broad assumption that all currency rates or rates in all currencies are reduced.

Chris Allen

Just a quick one on expenses. Noted the decrease in compliance staff as you went on full operational mode with the new compliance system. Just wondering like how much efficiencies, something like that would generate or realize you're redeploying into other investment areas. But then what are the other incremental opportunities you're working on to reduce inefficiencies moving forward?

Milan Galik

So if you look at our overall headcount, you'll see that it didn't change compared to a year ago. We are at 2,950 employees. There are small changes as to the individual departments, but we're not talking large numbers. Our goal is to be able to use technology to the maximum extent possible. Ideally, we would be able to onboard new accounts without adding additional staff. We were quite successful I would say in that over the last year, because we did not add any employees and yet we had a very significant growth in the number of accounts, but it won't always be like this. We are very closely monitoring the metrics on the customer service side. We see how long the wait times are. And if they cross a certain threshold, we make a decision to increase the number of customer service representatives, as we have just done. But again, we're not talking large numbers here, we're talking several dozens of new customer service representatives employed in the lower cost countries. So that's the way it is. With the advances in the AI, it should be easier to achieve our goal of scalability without adding new personnel, but it's not easy to do.

Operator

Ladies and gentlemen, I'm showing no further questions in the queue. I would now like to turn the call back over to Nancy 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

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.