Interactive Brokers Group's (IBKR)

Q3 2021 Results - Earnings Call Transcript

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Operator

Good day, and thank you for standing by. Welcome to the Interactive Brokers Group Third 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 Nancy Stuebe, Director of Investor Relations. Please go ahead.

Nancy Stuebe

Thank you. Good afternoon, and thank you for joining us for our third quarter 2021 earnings 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. 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.

In the third quarter, we once again reached a record number of accounts, 1,536,000. Our year-over-year account growth of 57% was nearly equal in all 3 of our geographic regions. The markets continue to be constructive for us, but more normalized than they were last year, driving commissions to $311 million, the second highest we have ever reported, only exceeded by this year's hyperactive first quarter.

While our GAAP reported net revenues were $464 million, our adjusted net revenues of $650 million were also our second highest on record, again, surpassed only by the first quarter. The $186 million adjustment to net revenues was virtually all due to the depreciation of Tiger Brokers' stock price.

We invested in Tiger at a blended price of less than $3 a share in 2018 and 2019, to help them gather enough capital to enter into the brokerage business on the large scale they wanted, using our platform as an introducing broker.

Since that time, the stock has traded as high as $38 and as low as $3, and at quarter end, our gain on this investment was about $80 million. Even though this started out as a relatively minor investment, it certainly has provided a lot of unintended distraction to our investors who look at our financials. With the new focus on the part of the Chinese government on data security, we now expect the stock to keep swinging for a while until they come to a clear understanding with the regulator of what is required, and how to get there.

Our financial performance underscores the strength of our platform and of our focus on automating as much of the brokerage business as possible. This gives us the ability to maximize our product and service offering, while minimizing our costs.

Automation to us means that our 1.5 million customers from all over the world can interact and trade securities, commodities and currencies with each other, across 141 trading venues, in many jurisdictions, under different rules, seemingly from one account.

This is not easy!

And it is the reason that not all products on our platform are available for all users, such as crypto, which is not yet available to many of our non-U.S. customers, but we are working hard on that. We just yesterday enabled registered investment advisers to add small crypto positions to the investment portfolios of clients who request it, which we are told happens ever more often.

Automation also enables us to generate upon request, a single, nicely compiled investment report that not only summarizes your holdings and returns, and the risk you have been taking, but does so across continents and products and currencies. And you can even custom tailor it for yourself or for your customers, column by column. We've even added the capability to include assets that are custodied elsewhere and incorporate them into this report no matter what country or major currency they are in.

We continue to see active trading among our client base. To give a sense of this, in the third quarter of 2019, our equity volume was 41 billion shares. In the third quarter of 2020, it was 86 billion shares. This quarter, it reached 172 billion shares. Third quarter total DARTs of 2.3 million were the third highest in company history, following the first 2 quarters of this year, as existing clients continue their activity, and new clients begin to participate.

Client investing confidence can also be seen in our customer margin loans, which reached a record $50.2 billion, up 67% from last year. We continue to see our clients putting their available funds to work.

$50 billion of margin loans represents about 6% of all outstanding industry margin loans, even though we only hold less than a fraction of 1% of all investable assets. This is also remarkable because our margin lending policies are comparatively conservative, and we automatically liquidate positions in accounts that come into violation of these policies.

The reason for our high margin balances is that we only charge 0.75% to 1.56% to IBKR Pro customers for margin loans. This policy is a major draw for sophisticated traders who trade often and use leverage. The more our clients participate, the stronger we become. Our reported pretax profit margin was 50% and adjusted for noncore items was 65%. We know of no other broker who can claim profit margins close to this.

Our new account growth remains quite positive, ahead of both prior year and prior quarter adds. Investor confidence and activity are strong across the globe in all regions as we emerge from the pandemic. This activity continues to be led more by individual investors who tend to stay with us, especially internationally, because we offer a broad product range and the lowest cost to those investors, and there are many who wish to invest globally.

This breadth is one of our strategic advantages, one that is extremely difficult to offer.

For any broker, providing market access can be expensive and complex. To do so globally, with compliance, legal, currency and tax and a hoard of requirements that vary by market, is even more so. Having all this automated is our competitive advantage.

3/4 of our accounts are international, in rapidly growing markets. Even as we come through this period of COVID, global interest in the markets, that began early last year, continues.

People have grown comfortable doing more and more of their financial business electronically. They have grown more connected to financial markets, institutions and each other online, which in turn drives even more people to participate. This, along with our continuing dedication to add more products and services to our platform, is why we believe year-over-year growth of total accounts can be at least 30% going forward indefinitely.

Once again, all client segments and geographies showed strong account adds with all regions showing greater than 55% year-on-year account growth. Now I will go over our five client segments.

Individual customers who made up 64% of our accounts, 37% of our client equity and 54% of our commissions, continued their remarkable run of growth, with 12-month account growth of 79%, client equity growth of 57% and commissions of 35%. All geographic regions we serve saw growth in individual accounts of over 70%, with European accounts topping all regions with over 90% growth. This underscores what we always say, it is important to provide a reliable platform that is global, because people around the world want to maximize their opportunities to invest in the variety of ways they prefer.

Hedge fund customers also continue to grow. For the 12 months ended September 30th, we saw 4% hedge fund account growth, 41% customer equity growth and 4% commission growth. We continue to add growing and larger hedge funds, which can be seen in the particularly robust growth in client equity in this segment. Hedge funds represent 1% of our accounts, 7% of our client equity and 6% of our commissions.

According to Preqin, we moved from 8th to 7th place as the prime broker servicing the most single manager hedge funds. We are in first place as the prime broker servicing the most hedge funds with under $50 million in AUM. And for the second year in a row, we are the fastest-growing prime broker.

Proprietary trading firms are 2% of our accounts, 9% of our client equity and 12% of commissions. For the quarter, this group grew by 36% in accounts for the 12-month period, 44% in client equity and 19% in commissions. All regions saw strong growth. We are seeing particular success in this segment in Europe, as more prop trading firms open and new and existing firms move to us, due to our unusually diverse international product base, to capitalize on our reputation for seamless, efficient and favorable trade executions, and as investors seek to counterbalance negative interest rates in the EU.

Financial advisers are 9% of our accounts, 17% of our customer equity and 10% of our commissions. This group grew accounts by 19% for the 12-month period, customer equity by 41%, and commissions by 7%. Account and client equity growth in this segment tends to be higher than commission growth, as advisers typically tend to trade more conservatively. More, larger adviser firms are beginning to try Interactive Brokers for our adaptable account structures where you can manage hedge funds, SMAs and regular client accounts under one master and invest across the world in a wide variety of products - that now includes crypto. An RIA can use our rich set of tools and capabilities, and with our dedicated client service desk for advisers, we continue to get better and capture more business globally.

Our final segment is introducing brokers. These represent 25% of our accounts, 30% of our client equity and 17% of our commissions. I-broker segment account growth was 31% for the latest 12 months, with client equity up 59% and commissions up 97%. Offering the ticket of global access to their customers is critical for brokers looking to grow their business. Worldwide, new brokers starting up and existing brokers looking to extend the breadth and depth of their offerings, turn to our platform for its global trading and seamless back-office functionality. With the worldwide growth in investors who want global access, introducing brokers know that their best opportunity to succeed, is to partner with us to provide it.

Much was done to enhance and improve our platform this quarter.

We eliminated monthly inactivity fees, part of our ongoing commitment to provide low-cost trading solutions.

We introduced Bitcoin early last month in response to client demand. Over the next few months, we will be broadening both the regions and types of customers and coins available on our platform.

We are very proud of the great advances we have made in building out our compliance systems and staff, in a group that now numbers 350, across the many regional brokerage subsidiaries we have around the world, each with its own unique rules and regulations.

We have increased the yield on our advertising dollars, to a point at which it is becoming profitable to spend more.

We have grown our sales force, and they are gaining stride. As Interactive Brokers becomes better known for the sophistication and diverse capabilities of our platform, along with our industry-low pricing, it is easier and easier for them to attract new and larger customers.

The growing controversy and focus on payment for order flow is to our advantage. Due to our unique position in the PFOF space, where we provide either zero commissions, or executions at a small commission and crossing at usually-better prices in our ATS, we have a great opportunity to attract more institutional flow. They love to trade against our often overseas retail flow in between the NBBO, where both sides benefit.

All in all, it is a thrill for us to keep building new things and adding more and more products and capabilities and to offer it to an ever-growing audience at the same time. It feels like our opportunities are, for the moment, unlimited, but we must hurry because the empty, unserved product space is filling in quickly.

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'll review the third quarter results, and then we'll open it up for questions. Please first note, we have reordered our earnings release a bit to more closely align with many readers' expectations. So I'll start with our revenue items on Page 3 of the release.

Commissions continue to be strong, returning our second highest ever quarterly revenues of $311 million. This reflects higher trading volumes, especially in stocks and options from active customers and a groundswell of new customers on our platform.

Net interest income generated $274 million in revenues. Margin lending was particularly strong this quarter, with customers producing $141 million in margin interest, reflecting their confidence in the market. Securities lending also continued its strong run, as investor demand for a broad range of securities to borrow was met with a growing supply of inventory held by our customers.

We generated $49 million in revenues from other fees and services, even while discontinuing account inactivity fees. Strong client activity drove revenues higher in market data fees and risk exposure fees, and income from options exchange liquidity payments was driven higher by options volume. Market data fees were $20 million, up 21%. Risk exposure fees more than doubled to $8 million, and exchange liquidity payments were $10 million, up 51%.

We eliminated account inactivity fees on July 1st to further improve account retention. We believe the trade-off will be worth it for the long-term growth of the business.

Other income includes gains and losses on our investments, our currency diversification strategy and principal transactions. Many of these are excluded in our adjusted earnings. Outside of those, other income was up to $16 million.

Turning to expenses, execution, clearing and distribution costs were down 18%, despite the higher trading volume. Capturing exchange liquidity rebates through our state-of-the-art order routing system drove this performance, and regulatory transaction fees were substantially lower on reduced rates.

We have gotten better and better at reducing these costs for our clients. As a percent of commissions, execution and clearing costs declined from 36% in the third quarter of 2019 to 27% in the third quarter of '20 and now, to 20% in the third quarter of this year. With client trading volumes rising while we continuously improve our order routing technology, more commission revenue goes to the bottom line.

Our ratio of compensation and benefits expense to adjusted net revenues was 15%, unchanged from last year, despite a 28% increase in headcount. This reflects our expense discipline and our strong top line. Our quarter end headcount was 2,471.

G&A expenses were up 19% on the prior year, reflecting legal expenses on litigation and prior period bank fees, neither of which we would expect to continue at this pace.

Our adjusted pretax margin was a robust 65%. By practicing expense control while also hiring and investing in the business for accelerated growth, we are maintaining the operating leverage in our business.

Finally, on the income taxes line. Of the $28 million shown, the operating company's portion was $19 million, and the public company's portion was $9 million.

Moving to our balance sheet on Page 5 of the release, the total assets ended the quarter at $106 billion, with growth driven by margin lending to customers. Our consolidated equity capital reached $10 billion for the first time, and we have no long-term debt. We continue to deploy our balance sheet to support our growing client business. In particular, more and larger customers want access to margin lending, which our capital base gives us the ability to provide.

We opened offices in Ireland and Hungary in response to Brexit. For those and our other rapidly growing international locations, our capital base provides the foundation needed for today's operations and for future growth. Our capital is also used for numerous other growth and investment opportunities we see worldwide. And finally, an ample capital base helps us win business, by showing the strength and depth of our balance sheet to current and prospective clients and partners.

Let's look briefly at our operating data on Pages 6 and 7 of the release. Page 6 shows contract and share volumes for all customers rose 34% in options and 100% in stocks, well above industry growth. Activity is strong across client types and geographies. In most securities products, our volumes are still above the very high activity levels of 2020.

Turning to Page 7, account growth remains robust with 555,000 account adds for the year and 122,000 for the latest quarter, on top of record performance in the first half of this year. Total accounts reached 1.5 million, 57% over the prior year and 9% over the prior quarter. Customer equity growth reflected strength in new accounts, solid additions to existing accounts, and a generally supportive market environment.

Total customer DARTs reached their third highest quarterly level ever at 2.3 million trades per day. This reflected investor confidence in rising markets, the ongoing global search for yield in zero- and negative- interest rate environments, and more customers on our trading platform.

Commission per cleared commissionable order shows our success in capturing rebates paid by exchanges. We route IBKR Pro orders directly to exchanges realizing these exchange rebates and passing the savings on to our clients by lowering their commission. Our cleared IBKR Pro customers paid an average of $2.46 per order, 9% less than they did last year, as our order routing system found opportunities to maximize rebates while achieving best price execution. Our clients benefit with lower commission costs as we pass our lower execution and clearing costs on to them. Profitability per order to us remains the same.

Next, we break down our net interest margin on Page 8 of the release. Total GAAP net interest income was $274 million, significantly higher than a year ago, reflecting increases in margin lending and securities lending. Average margin loan balances and margin interest income were up 64% and 70%, respectively, from last year. Investors were comfortable this quarter taking on leverage in a fairly benign market environment.

Securities lending net interest was up 43% from last year, driven by strong client participation in the market. As we grow our customer base, our opportunities to lend customers shares to other customers who short these stocks also grows. Together with increasing our profitable securities lending to other broker dealers, the model generates expanding revenues. We believe our proprietary system, developed in-house for securities lending and operated by our team of specialists, is proficient in identifying and lending out securities in high demand, which drives our revenue from this activity.

Moving to net interest from segregated cash and from customer credit balances, this shows the impact of negative benchmark rates in certain countries.

When benchmark rates are very low, as they are in the U.S., we pay no interest to customers on their cash. But in currencies where rates are negative, we earn interest by passing through these negative rates to customers. We earned $8 million on this.

When benchmark rates are positive, we earn interest on depositing and investing our segregated cash balance. But because of negative rates in some currencies, we had a net cost of $4 million on these balances.

Taken together, the net interest income from these balances was $4 million for the quarter.

Now our estimate of the impact of the next 25 basis point increase in the U.S. benchmark rate, we expect the next 25 basis point rise in rates to produce an additional $107 million annually. This does not take into account any change in how we may adjust our strategy to take advantage of newly higher rates. About 24% of our customer cash balances are not in U.S. dollars, so estimates of the impact of U.S. rate changes exclude those currencies.

In conclusion, this was a strong quarter that reflects our ability to grow our customer base and that shows the attractiveness of our strategy to automate for growth, expanding what we offer while minimizing what we charge. Given our progress and performance, we're confident in our ability to grow accounts as Thomas has indicated, maintain our expense discipline and to capture future opportunities as they arise.

And with that, we'll now open up the line for questions.

Q&A

Operator

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

Rich Repetto

Just a follow-up question on the China situation. I know the accounts have been drawn down at Futu and Tiger. I guess, Thomas, can you explain just about other operations, from what I understand your servers aren't in China. But are there any other impacts on client growth? Again, it's clear what's going on with Futu and Tiger. But just that region, is that going to have any other follow-on impacts.

Thomas Peterffy

Well, I'm glad that it's so clear to you. It may not be so clear to everybody else, so -- but any rate IBKR does not process client data in China. To the extent we keep data on customers who reside in China, we must keep that data on their procedures that satisfy the criteria that they have published. This criteria, we find, is very similar to the one imposed by the European Union under the so-called GDPR rules.

Since we have built those procedures at the time the GDPR rules came into effect, we will modify and reuse them for Chinese customers. Now, these are direct customers from mainland China. As you know, we have the 2 introducing brokers, Futu and Tiger Brokers, you mentioned. These 2 firms will have to work with the regulator to make sure that they are compliant with the new rules. While we do not think that these accounts -- regular accounts with us are in imminent danger of having to close, it is well known that Futu has been planning to go on their own in the U.S. We think, if anything, the new rules may slow down that process.

At any rate, the investors will want to know our exposure to these 2 brokers. Our expected net revenue -- gross revenue, sorry, our expected gross revenue derived from servicing Futu and Tiger, by the end of the year, we expect it to be $75 million. Most of these accounts operate on an omnibus basis, but they still have about 64,000 individual accounts, which we have indications that they will convert to omnibus. So in that case, it will result in a 64,000 account diminution in our number of customer accounts. So that's what I have to say about that.

Rich Repetto

It was a little bit more complicated than what I thought, but that's helpful, Thomas. Okay, another question. Just trying to understand a little bit about the crypto offering. I know the pricing of it is, in Interactive Broker style, is highly, highly competitive. And I guess what you're seeing early on, because your customers don't go for -- haven't gone a lot for the zero commissions. So I'm just trying to see whether that's any -- whether they are real crypto traders as well.

Thomas Peterffy

Right. So we have invited so far -- as you know, we cannot make this available everywhere, right at the start, because we haven't worked out the licensing situation. So at this moment, this is only available to people in the United States. We have so far invited, I think, around 350,000 accounts, of which 17,000 requested permission to trade it, and that's what we have so far.

Now as of yesterday, we have enabled Registered Investment Advisers because we often heard the people's accounts are managed by Registered Investment Advisers would like to have some crypto. And so that creates a situation where we are the only broker -- at this time, where an investment manager can trade crypto along with stocks and bonds for their clients and manage all positions on one screen and show them in one account.

Rich Repetto

Got it. Very helpful. Last question is the meme stock report or GameStop SEC report came out yesterday. I just was wondering whether you had any big takeaways from the information that was provided or the conclusions that they reached? Anyway, I didn't quite see all the connections, but maybe you did, Thomas.

Thomas Peterffy

I was extremely surprised to find that they did not mention the preopening activity on those two days when the stock doubled or tripled, because preopening trading usually is, on a very, very strong run up, is usually indicating that the broker has to cover fails -- because the broker on the fourth day has to cover the fails prior to the open, no matter what the price. So I think that's what must have driven the price in those two days prior to the open.

Operator

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

Will Nance

Thomas, maybe I could start on some of the comments in the prepared remarks around growth. If I think back a couple of years ago, I think you talked about 20% growth. Now we're talking about 30% growth, and it's on a larger account base size. So I think it seems like you guys have gotten more confident in the growth outlook. And I'm just curious if there's anything in particular you'd point to or what you're kind of seeing in the market that you think is helping the brand resonate a little bit more with customers.

Thomas Peterffy

Yes. So number one, we are experiencing that stronger growth; and number two, we have a clear plan of how to go forward nurturing that growth. So I'm confident about being above 30% going forward indefinitely.

Will Nance

Got it. That's helpful. Maybe just a ticky-tack one for Paul on the expenses. I think you mentioned there were some elevated legal expenses and I think a handful of other things in G&A this quarter. Any sense of the magnitude there?

Paul Brody

So it's probably relatively safe to say that the run rate that we had been running previously is a bit more realistic to return to, to put it an overall number on it, that's probably $3 million to $4 million extra in the quarter, something like that.

Will Nance

Got it. That's helpful. I appreciate it. And then just lastly, I was wondering if you can maybe address some of the news flow in the quarter around like BSA/AML issues. I realize there may not be much you can say, but just curious if there's any light you can shed on that? I think around the articles that hit, I think, around you guys and Morgan Stanley, around some kind of investigation, around...

Thomas Peterffy

Yes. Well, I tell you honestly -- that was the first time I heard of that customer. And you are right. I haven't even looked into the situation. I mean, I'm sure our compliance people are handling it. But I would think that if it were a serious issue, they would have brought it to my attention by now.

Operator

Our next question comes from Dan Fannon with Jefferies.

Dan Fannon

Thanks. I wanted to follow up just on the account growth and you're obviously very positive across all regions, channels. Can you talk about the profile of the new customer that's coming on board, how that compares to your existing kind of customer and -- is there anything specific or regions? I know that you said broadly very strong everywhere. But any specific areas to call out where you're having outsized success?

Thomas Peterffy

No. It's just straight across the board, it's similar growth everywhere.

Dan Fannon

And the profile of the customer is similar?

Thomas Peterffy

It is similar, yes. I mean, look, let's face it, at the very beginning when we started Interactive Brokers, we were, of course, going after the people, the traders, the floor traders that had to leave the floor. So if you look back to our early years, we had very few customers but very high rates of trading.

So that is gradually coming down as we go forward. So every year, basically, the number of trades per account is slowly dropping. But we're still up there around about 400 trades a year or something like that per account.

Dan Fannon

Okay. And then just you mentioned an increased yield on your advertising dollars, which is something that I think you said or alluded to, will allow you to spend more. Can you talk about that in terms of -- obviously, that I assume that ties to the account growth, but how we should think about that in terms of spending? And are there certain channels or regions that you think your advertising dollar is going further?

Thomas Peterffy

Yes, because our advertising dollars are certainly tied to certain aspects of our platform. And when we introduce something new, we do that now with a lot of advertising. So when we introduced crypto, we had a crypto advertising campaign that is going to continue for quite some time.

Now very, very shortly, on November 1st, we are introducing a new capability that we are going to start with a huge ad campaign. So that's part of reason why I feel so confident about the account growth.

Operator

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

Kyle Voigt

If I could just follow up actually on the question -- Dan's question on advertising. Thomas, I know there's -- you just mentioned new product rollouts and maybe that's different. But I know historically, there's been some frustration about not getting that adequate return on marketing investment, and clearly, that's changed. I'm just wondering if you could speak to, like, has there been a strategy shift in terms of like where -- which channels those marketing dollars are being spent in?

Thomas Peterffy

Yes, but this is a very sensitive competitive issue, because everybody is trying to advertise and gain more accounts. So yes, we have gotten into it very deeply, and we now understand better where you get your money's worth and where you do not.

Kyle Voigt

Got it. And so as we're looking out to 2022 and beyond, do you think that's going to be, kind of, over the medium term, not just near term, but over the medium term, do you think advertising is going to be a bigger part of that medium-term, kind of growth story to continuously drive the account growth? Is that what you're saying?

Thomas Peterffy

I certainly hope so. I do not have definite proof of that for our plans, but we have the plans and we're going to go forward with them. And I think that we have every indication that they are going to work.

Kyle Voigt

Got it, fair enough. And then I guess another question. In terms of the Paxos relationship, just wondering, can you help us better understand the contract structure? Is there just a set revenue share on the trading revenue that's generated? And so that's shared with Paxos?

Thomas Peterffy

So we route the customer to Paxos - the customer's order goes to Paxos - and Paxos charge their commission and then gives us a share of it -- not a share of it, gives us a fee.

Kyle Voigt

Understood. And then just my last one is just in terms of -- if I look at the individual account size, if I'm doing my math correctly from the prepared remarks, it looks like the average account size is getting smaller despite the increase in the equity markets. So I think you commented earlier that the average client that's being acquired looks relatively similar. But is it fair to say that they're generally smaller sized accounts? Is that fair to say, Thomas?

Thomas Peterffy

Well, introducing broker accounts are smaller. And individual accounts are on the average, smaller. Yes.

Operator

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

Chris Allen

I just want to follow up on a couple of things. Thomas, on the crypto launch. I think you said you were going to broaden the number of coins. Any color just in terms of where you think we may get to on that? And what's the timing around that?

Thomas Peterffy

I think, well, it's not up to us, it's up to Paxos. And I understand that they are working on adding 5 more coins in the near future.

Chris Allen

Understood. And then I just want to follow up on Rich's question on your response to Futu and Tiger, I just want to make sure I understood it correctly. You expect the gross revenues from those IB relationships to get to $75 million at year-end. Do you expect it to be maintained, even if they continue to migrate some of the U.S. customers to self-clearing? Or is that going to decline over time? I just want to be clear on that.

Thomas Peterffy

So no. The $75 million is just simple, I looked at the year-to-date growth, and I expanded it to the end of the year. So that -- I mean, I'm not expecting it to go up or down. I just tried to quantify so that it's easily understandable, right? $75 million a year is understandable, right?

Now some of our -- I mean everybody has known and we have been talking about that for some time, that Futu wants to become self-clearing in the United States, and they put up a company and they have applied -- I think they applied for registration in FINRA and OCC, et cetera. So we are expecting them to eventually leave us. And so as I think - this new rule, if anything, may slow that down a little bit.

Otherwise, as I mentioned, yes, we have 64,000 individual accounts still that come from, mostly, from Tiger. And I think that those accounts will go into an omnibus account. And as a result, we will lose those accounts as our number of accounts. So our number of accounts will seemingly shrink, but simultaneously the average account size that there is will increase.

Operator

Our next question comes from the line of Macrae Sykes with Gabelli.

Mac Sykes

Congratulations on the quarter. Just going back to the cryptocurrency, I think of Interactive as being a pretty competitive platform. And obviously, this is a huge business for Coinbase and some of the other competitors. But it sounds like -- given how you're rolling out things, that you're viewing it more as a complementary product to your accounts.

I mean, is this something that you think could be a significant growth driver in the future once you get settled on the operations, your relationship, et cetera? Or should we always kind of think of this as not being a major focus for you?

Thomas Peterffy

Well, no, I wouldn't think that, because I believe that there are tens of millions of investors in the United States, and they will think of crypto as just one product among the many they invest in, right? So I think it's a pain in the neck for them to have a different account when they want to buy some crypto versus when they want to buy a stock or sell an option or buy a future, right? I mean it's so much nicer for a person like that to have all their assets in one account and see it on one screen and trade it from one screen, right? That's what has always been our competitive strength, right, enabling people to trade products all over the world from one screen in any currency and from one account, right?

Mac Sykes

Okay. I appreciate that. And I just wanted to -- just switching subjects a little bit. I wanted to get your thoughts on gamification and obviously providing education to clients, to get them to understand the markets better. But I wanted to get your views on sort of where the gray area is between some of these gimmicks that some of these other platforms are doing in terms of increased engagement, but perhaps crossing the rules or, sort of, good ethics around engaging the customer.

Thomas Peterffy

So as I have indicated previously, we are focusing on providing more education to our clients, and -- so we will review certain graphics that may be helpful in that effort. And I myself do not know gamification because, to tell you frankly, I have never been on another broker's platform. And I also never played any computer games, so I don't know the similarities. I'm the wrong man to ask about that.

Operator

(Operator Instructions) Our next question comes from Rich Repetto with Piper Sandler.

Rich Repetto

Yes. I just wanted to follow up one question with Paul. And you mentioned that 24% of your cash balances are non-U.S. And I assume that's 24% of the $23 billion of segregated cash. And could you also tell us, is there a way to quantify customers that don't have the $100,000 to fully get any increase in rates if short-term rates went up, to quantify that other part, where you don't pay interest to your clients, incremental interest.

Paul Brody

Right. So a couple of things, I can give you a minor correction. The 24% is of customer credits, not segregated cash. That cash is a little bit different because in certain areas, under SEC rules, we have to bring foreign currencies back into U.S. dollars in order to protect them for the customers. It's -- that's about 26%. It makes the foreign currency about 26%.

So -- to your your second question was about the interest rate changes on where we're currently paying no interest on credit, it boils down to what is our spread. So in U.S. dollars are advertised, right there on our website, the spread is a benchmark minus 50 basis points. So when Fed funds goes over 50 basis points, we will start paying interest again, and similarly in other currencies, and I think you asked about on negative rate currencies -- or maybe I'll just give you a little more information then on negative rate currencies. As those rates go up, something similar will happen, except that we do pass-through on the majority of balances, we now pass through negative rate to at least the larger customers, customers with less than $50,000 equivalent in those negative rate currencies kind of get a free pass, they get 0 interest because we want to treat them well and keep those customers around, and it doesn't cost us a lot.

Thomas Peterffy

And to respond to the $100,000 question. So if you remember, say, interest rates go to 1%, then we're going to pay 0.5% to accounts with $100,000 and above, and gradually less as the amount of funds in the account -- the amount of the value of the account decreases. So for example, if somebody has an account worth $50,000, then he's going to get 0.25% on the cash part of his asset in the account.

Rich Repetto

Understood, got it. Last question is, Thomas, we've had a quarter now since I last asked you about this. But any views on, or thoughts on regulation in regards to payment for order flow, coming after reading either the report, or any interactions you might have had during the quarter, but your thoughts on whether there'll actually be any regulatory changes to payment for order flow?

Thomas Peterffy

Well, I think that Gensler would very, very much like to do something. And he's said to us as much, that he would really love to do something and he's looking for ways to do it. I don't know if he'll find one because there is going to be pushback about whether the people get hurt in price or not. So -- and he's very smart when he comes out with this information flow because indeed, I mean, that is hard to put a dollar figure on.

But while the internalizers get the information flow, I'm not sure who is being damaged by them having the information flow. It's certainly not the -- not the person that sent the order, but the person with the next order, right? And that person may be through a different broker, to a different high-frequency trader, right?

Rich Repetto

Yes. Okay. That's helpful. I just wanted to hear your latest thoughts on it.

Operator

I am showing no further questions at this time. I would now like to turn the conference back to Nancy Stuebe.

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 our site tomorrow. Thanks again, and we will talk to you next quarter end.

Operator

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