

Interactive Brokers Group's (IBKR)

Q3 2022 Results - Earnings Call Transcript

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Executives

Thomas Peterffy - Chairman

Milan Galik - President, CEO & Director

Paul Brody - CFO

Nancy Stuebe - Director, IR

Analysts

Richard Repetto, *Piper Sandler*

Craig Siegenthaler, *Bank of America Merrill Lynch*

Ben Budish, *Barclays*

Ryan Bailey, *Goldman Sachs*

Chris Allen, *Citi*

Daniel Fannon, *Jefferies*

Kyle Voigt, *KBW*

Operator

Hello. Thank you for standing by, and welcome to the Interactive Brokers Group Third Quarter Earnings Call. (Operator Instructions) Please be advised that today's conference may be recorded. I would now like to hand the conference over to your speaker today, Nancy Stuebe, Director of Investor Relations. Please go ahead. Thank you.

Nancy Stuebe

Good afternoon, and thank you for joining us for our third quarter 2022 earnings conference call. Once again, Thomas is on the call, but asked me to present his comments on the business. Also joining us today are Milan Galik, our CEO, and Paul Brody, our CFO. After prepared remarks, we will have a 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 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 showed the strength of the Interactive Brokers' business model – automating substantial parts of the brokerage business in order to keep costs low and global product offerings and opportunities high, even as unfavorable market conditions continued to extend into this quarter and beyond.

While we were able to maintain our commission income, just barely, it is understandable that in these mostly one way markets, only very few retail clients feel any urge to open new brokerage accounts. This has a large and unfavorable implication for the growth of our business, and we expect this to continue into the early part of next year.

In spite of that, by this time next year we expect that our accounts will be about 30% higher than today due to some new, larger introducing broker relationships we have mentioned earlier. Preparing to onboard these accounts is a very slow process and it is unlikely that any sign of these will show before the spring.

Account number growth comes on the retail end from direct and introducing broker customers, but much of our commission income comes from hedge funds and proprietary trading groups. An

average hedge fund account generates 67 times as much revenue as an average individual account, and for prop trading accounts this multiplier is around 10. Hedge funds and proprietary trading accounts are less affected by the direction of the markets and therefore our emphasis turned more in their direction lately.

As the most recent Preqin statistics illustrate, for the past three consecutive years the number of hedge funds on our platform has grown faster than at any other leading bank or broker. IBKR is now the sixth largest provider of prime brokerage services by number of funds, and we feel fairly confident about moving to be number four in the current year, right behind Morgan Stanley, Goldman and JP Morgan. This growth in hedge fund accounts is happening even though we still do not provide some of the products hedge funds use, like non-exchange-listed products outside of cash forex, or first-hand research and organization of meetings and introductions to corporate CEOs or CFOs.

Our aversion towards non-exchange-listed products is due to our fear of taking on counterparty credit risk that often turns out to be the source for existential difficulties in the business. But these products also create opportunities for outsized trading gains as they are usually exchange-listed options dressed in different cloth, i.e. different, custom made terms, but they are always ultimately hedged by exchange-listed products. Since their terms are unique, they cannot be directly compared to anything to insure reasonable pricing.

While we are not going to change our stance with respect to OTC products, we do not feel the same way about other products like research and corporate introductions, and as we continue to grow in this business that is something we may consider in the future.

The point is that ever since we started in the brokerage business, we said that we'll build our platform for the most demanding investors, and we automate it so that we can easily make it available for anyone who may care to use it. We were often told that that was not a realistic approach, you must choose your target audience.

Relying on our growing hedge fund customer base, we are now able to turn this logic around and market the platform to the more sophisticated individual investors by saying to them: “To get better results get a better platform, the best-informed investors, choose Interactive Brokers.” We are planning to use this as our tagline in our branding efforts.

Another welcome development during the quarter was the growth of our bond platform. For many years, this platform has been growing very slowly, recording about a thousand trades a day. Suddenly, with more active bond market volumes, this now reaches 3,000 transactions a day. Given the relevance of bonds, our Bonds Marketplace has a search tool where you can scan by maturity date, yield to worst and duration to analyze and compare issuers and save your scan to run again at any time.

Many of our customers realize that they can achieve better execution prices by sending us limit orders between the prevailing bids and offers. We go out to numerous other platforms to show these orders but if no trade occurs and we get an offsetting order we match the two. We also have order types that instruct us to keep the order internally and wait for a match. This way, the client is not driving the quote in the market, against herself.

Despite the slower growth in accounts, we welcomed our two millionth customer in September, less than two years after adding our one millionth customer, and ended the quarter with a record 2 million, 12 thousand accounts, an increase of 31% from last year. We saw account growth in all client segments and all geographic regions, with particular strength – 43% and 31% – in Europe and Asia, which together represent the majority of our accounts.

Account growth, once again, occurred in all five of the client types that we service. Individual account growth was fastest, at 38%, followed by proprietary traders at 28%, introducing brokers at 20%, financial advisors at 14%, and hedge funds at 13%.

Commission per DART continues to rise as our clients continue to be active in options and especially in futures, which carry a higher commission although the bulk of that goes to exchange

fees. In equities, higher commission per DART was driven by a mix with fewer penny stock orders, where we limit our commissions not to exceed 1% of trade value. Higher futures commissions include very high exchange and regulatory fees, which in part explain our higher execution and clearing direct expense.

An advantage of providing many product types to worldwide customers is the ability to capture opportunities when one product or another becomes active. This quarter, while stock share volumes were below those of last year, options and particularly futures volumes remained strong.

We are always looking to find opportunities to grow our business. We have been letting investors know that Interactive Brokers pays its clients 2.58% on their cash balances, and if the Federal Reserve raises rates again by 75 basis points, then their rate will also rise by 75 basis points, to 3.33%.

We recently introduced our Options Wizard, a tool where you can enter your outlook about the future of the underlying's price movement, and the Wizard will provide some standard strategies that can be filtered by aggressiveness or by probability of profit – or you can set up your own strategy.

Continuing high inflation is a catalyst that convinces people that holding onto their money as cash will not earn them any return. Investing in securities worldwide will be necessary for a chance to earn a positive rate of return, which is why we have focused on investor educational materials, like our Traders Academy courses, our webinars, podcasts and blogs, to inform our customers and make our platform the platform of choice for successful investors – the two million we have, and the millions more we hope to have.

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

Paul Brody

Thank you, Nancy and thanks everyone as usual for joining the call. We will review the third quarter operating results and then we'll open it up for questions.

Starting with our Revenue items on page 3 of the release, we recorded another strong quarter, with record net revenues and pretax income on an adjusted basis. With customer account growth at 31% year-over-year, we continue to expand our potential for both commission and interest revenues in the future.

Commissions were strong, reaching \$320 million despite weak equity markets worldwide. Futures volume outpaced the third quarter of 2021, options volume was roughly unchanged, and while stock share volumes declined from last year's quarter, the drop in notional dollar value of stock trades was generally in line with the drop in regional equity indices around the world.

Net interest income of \$473 million reflected higher margin loan interest despite lower balances, thanks to increases in benchmark rates; and higher interest earned on our segregated cash portfolio, as US rates have moved from an average effective rate of 9 basis points last year to 218 basis points in this year's quarter. These gains were partially offset by higher interest we paid on customer credit balances, as we pass through rate hikes above 50 basis points to our customers on their qualified funds.

Other fees and services generated \$45 million, with the biggest contributors being market data fees of \$19 million, unchanged, and options exchange liquidity payments of \$9 million, down 18% from the prior year. Risk exposure fee revenue was \$5 million, down 38% in the current risk-off environment.

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, and without these excluded items, Other income was \$9 million for the quarter.

Turning to expenses, Execution, Clearing & Distribution costs rose 41% from last year, led by lower liquidity rebates; higher futures volumes, which carry higher fees; and an increase in the SEC fee rate on US stocks and options. As a percent of commission revenues, Execution & Clearing costs, which are driven by a combination of trading volume, exchange rebates and changing fee schedules, were 21% this quarter vs.18% in the second quarter. Note that Market Data expense, a pass-through item, is included in “Execution, Clearing & Distribution Fees”, while the corresponding Market Data revenue is reported in “Other fees and services” rather than in Commissions. So, to align the volume-driven expenses with commissions, we look at pure Execution & Clearing costs, excluding Market Data expense.

Compensation & Benefits expense rose \$14 million, or 14%, over the prior year, in line with hiring. While up in dollar terms for the quarter, Comp & Benefits expense fell to 13% of our adjusted Net Revenues, somewhat below its historical level. Our headcount at quarter-end was 2,752.

G&A expenses were down \$7 million, or 16%, versus last year’s third quarter, on lower legal expenses from a higher-than-typical number last year.

Our adjusted pretax margin was a record 68%. Automation remains our key means of maintaining high margins, as well as continued expense control while we hire talented people and invest in the future of our business.

Income taxes of \$40 million reflects the sum of the public company’s \$23 million and the operating companies’ \$17 million.

Moving to our balance sheet on page 5 of the release, our total assets were \$115 billion at the end of the quarter, with growth over the last year driven by increases in our segregated cash and securities, partially offset by a reduction in customer margin loans. We maintain a balance sheet aimed at supporting our growing business and providing ample financial resources during volatile markets. We have no long-term debt.

In our operating data, on pages 6 and 7, our contract volumes for all customers were strong, about even with the strong prior-year quarter in options, and the third highest ever in futures, up 37%. Stock share volume was down significantly versus last year's active third quarter, and the drop off was largely attributable to trading in pink sheet and other very low-priced stocks. Of note, the notional dollar value of shares traded dropped less than the number of shares traded, reflecting this shift away from low-priced stocks, which tends to raise the average commission per order.

On page 7, you can see that our account growth remains robust, with nearly 90,000 net account adds in the quarter, and total accounts exceeding 2 million, up 31% over the prior year. Total Customer DARTs were 1.9 million trades per day, down 15% from the strong prior-year quarter. Our Cleared IBKR Pro Customers paid an average of \$2.96 Commission per Cleared Commissionable Order, up 20% from last year as our clients' volume mix included higher per order contributions from stocks and options.

Page 8 presents our Net Interest Margin numbers. Total GAAP net interest income was \$473 million for the quarter, up 73% on the year-ago quarter, reflecting stronger margin loan and segregated cash interest, partially offset by higher interest expense on customer cash balances. The Federal Reserve raised interest rates twice in the quarter, by 75 basis points in late July, and by a further 75 points in late September, with about a week left in the quarter. The latter raise had a minor positive impact in a 12-week quarter, but will have a fuller positive impact in the third quarter.

Many other central banks also raised rates this quarter. This group includes the UK, Canada, Australia and Hong Kong, as well as the Eurozone and Switzerland, which are now out of negative-rate territory for the first time since 2014.

Margin loan interest was up 125% to \$317 million, despite average margin loan balances that were down 9% from last year's third quarter. Higher rates, in the US and internationally, continue to bode well for our margin interest income.

Net interest on segregated cash was \$228 million, primarily due to Federal Reserve rate hikes but also to our managing to short duration on invested funds, which has allowed us to pick up benchmark rate increases quickly. At September 30, our US portfolio duration was 42 days, so the investments roll over into new, higher, rates with a fairly short lag time.

Securities lending net interest was \$114 million, down 7% from the year-ago quarter. It's worth noting that, while securities lending opportunities maintained a relatively strong pace, it is also the case that as benchmark rates rise, a greater portion of the revenue generated by securities lending is reflected in interest on segregated cash, because the cash collateral received is invested as segregated funds. We estimate this impact to be about \$24 million for the quarter vs the year-ago quarter.

Interest on customer credit balances, or the interest we pay our customers, grew as higher rates in many currencies led to our paying interest on qualifying accounts as we pass through rate increases. We paid \$248 million to our customers on these balances in the third quarter.

Now, for our estimates of the impact of increases in rates. Given market expectations of more rate hikes to come, we estimate the effects of increases in the Fed Funds rate to produce additional annual net interest income as follows: at 25 bps, an increase of \$55 million; at 50 bps, an increase of \$110 million; at 75 bps, an increase of \$166 million; and at 100 bps, an increase of \$221 million. Note that our starting point for these estimates is September 30, with the Fed Funds effective rate at 3.08%, and based on balances at that date.

These estimates do not take into account any change in how we may adjust our investment strategy to take advantage of newly higher rates, or any change in our assets. About 20% of our customer segregated cash is not in US dollars, so estimates of US rate change impacts exclude those currencies. We estimate a 25 basis point increase in all the relevant non-USD benchmark rates would produce additional annual net interest income of \$14 million, and rising to about \$56 million at a 100 basis point rate increase.

In conclusion, the company generated another solid performance in the third quarter, reflecting our continued ability to grow our customer base, deliver on our core services to customers while continuously adding new features and products, all at low cost, and manage the business effectively with strong expense control. And 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 Rich Repetto of Piper Sandler.

Richard Repetto

I guess the question -- first question is on account growth. Thomas you had sort of warned that you're starting to feel or a slowdown, but if you look at the quarter, you had a couple months at about 20,000-25,000 then on August, 38,000. So can you give us what do you feel like is the run-rate going forward and what happened? Why August it seemed like it was 35% to 50% higher than the other months? And just a little bit of color on -- I guess the delay, I guess just administrative delays with these introducing brokers?

Thomas Peterffy

So look the account growth is very lumpy. Sometimes we get introducing brokers or larger RIAs who bunch up and all come to us in the same months and other months we have much fewer of those. But you generally understand that in these markets, people are not adventurous to open account with new account with a brokerage firm as they are enough markets, right. So I mean that's I think that's pretty clear to everybody. And so -- and things I expect the market to continue to go down for a while. I expect the new account openings to become either slower or going forward, but as we have said -- indicated before that we have two large introducing broker accounts that we are going to onboard, probably early next year. And to tell you frankly, I am --

maybe Milan could talk a little bit about that, all the complexities are-- why they take such a long time.

Milan Galik

Sure. So there are really two different things going on. One of them has to do with the fact that we are dealing with larger organizations and just to arrive in an agreement that we can both live with, takes a while. There is an army of lawyers involved on their end. There is a smaller group of lawyers involved on our end, and we have to hammer out the contract in a way that is acceptable to both of us, what the liabilities are, what the economics are, et cetera, et cetera. So that's on the legal side.

On the technology side, two things have to happen. First, the i-broker has to choose the way they're going to interact with us, how they're going to integrate. Are the clients going to use our platform? Or is the other going to provide theirs? Is there going to be FIX connectivity involved? How are the accounts going to be opened? All these details first have to be figured out, they have to choose the right solution for them. And then the integration work starts. We have to do some software customization for them. They have to do a lot of interfacing work on their end. And this typically takes a while.

Richard Repetto

Got it. Thank you that's very helpful Milan and Thomas. And I guess a follow-up question for Paul would be on this stock loan, like I'm trying to understand what you meant the \$24 million that was paid on segregated cash? Is that really a subtraction of what would be revenue allocated to securities lending. Is that what you're trying to communicate?

Paul Brody

It's just -- purely a matter of which line item the income is reported on. So as rates go up, when you lend stock and take-in cash collateral on behalf of the customer that cash gets put into segregated bank accounts and treasuries and so forth. And so that simply gets the interest earned is reported as segregated cash interest and as the rates go up, more interest goes there and stable amount of securities lending revenue stays in securities lending.

Richard Repetto

Okay. So it actually would be -- if you just had to net out the revenue from securities lending, whether it'd be paid in interest on segregated cash, it would probably be -- it's not \$114 compared to -- I think it was pretty flat year-over-year, it would be down is that what you say? I mean, it makes the difference.

Paul Brody

Yes, think of it this way when you lend stock and take in cash collateral, there is a base interest rate, a benchmark rate to call it Federal funds rate, right? There is a fee for borrowing the stock that the borrower pays to the lender -- we are the lender. The fee is always reflected as securities lending. In the U.S. however, the fee is embedded into an all-in rate that includes interest paid on the cash collateral and the fee charged to the lender. But only the fees should show-up in securities lending, it's an accounting convention if you will. But in reality because the cash side of the transaction must go into segregated cash. As the rates go up, the interest income in a sense migrates from the securities lending reporting line for the segregated cash reporting line.

Richard Repetto

Got it. Understood. It's really -- your net interest income definitely showed the sensitivities that you put out, so it's not really material I guess. Thank you.

Operator

Our next question comes from Craig Siegenthaler with Bank of America. You may proceed.

Craig Siegenthaler

Good evening, Thomas and congratulations on eclipsing 2 million accounts.

Thomas Peterffy

Thank you.

Craig Siegenthaler

So for these 30% account growth target over the next 12 months, roughly how much of that do you see coming from the three large introducing broker wins? Are they driving 75% of that?

Thomas Peterffy

Yes, 65% to 75% yes.

Craig Siegenthaler

Got it. And then just to confirm, I think Nancy said no account inflows from those before the spring, so April. So I'm guessing, we'll see none of the --

Thomas Peterffy

We're not sure about April. I mean maybe -- so at the beginning, maybe they will open some accounts for their employees themselves to -- and then one of these banks is going to bring up accounts, country by country, and we don't exactly know in what order that is going to take place. So what I would say is the earliest maybe February and the latest maybe April.

Craig Siegenthaler

Great. Thomas, thank you for taking my questions.

Thomas Peterffy

Thank you for asking them.

Operator

Thank you, one moment for questions. Our next question comes from Ben Budish with Barclays.

You may proceed.

Ben Budish

I wanted to kind of follow-up on the introducing broker topic, but maybe instead talking about kind of the pipeline of new accounts. Could you perhaps talk a little bit about the pipeline of

introducing brokers. So you mentioned that retail investors may be reluctant to open a new account in this environment, but are you finding the same sort of sentiment from potential new partners, banks and other financial institutions that may be a year from now, you may be telling us about the next wave of introducing brokers. So I guess the question is how is the sentiment with that customer group?

Thomas Peterffy

So obviously, the sentiment is probably very similar across different brokers. And then we are talking about onboarding large introducing brokers we're basically talking about the existing accounts.

Ben Budish

Okay. Makes sense. Maybe one more -- one follow-up, if I could. Could you maybe talk a little bit about the hedge fund business since that seems to be where you're going to be a little bit more focused kind of in the near-term? Maybe just kind of help us understand a little bit the cost structure. I think you gave some helpful stats around the average revenue for your hedge fund and market banking clients. But is it in terms of the kind of net margin there? Is it more costly to serve? Or is it kind of a higher margin group just given the individual.

Thomas Peterffy

I was not talking about the cost. I was talking about revenues. So I took the revenues coming from hedge funds and took the revenues coming from individual customers, it's true that 67 individual accounts generate as much revenue as an average hedge fund account in our case, right? And in our case, among the individual accounts, they are small accounts and large accounts and along the hedge funds accounts, there are also smaller accounts and large accounts. But so I'm just working with the averages here.

Ben Budish

Okay, great. Thanks so much for taking my questions.

Operator

Our next question comes from Daniel Fannon with Jefferies.

Thomas Peterffy

We can't hear you.

Operator

Daniel Fannon, if your line is on mute, please unmute. You may ask your question. One moment for questions. Our next question comes from Craig Siegenthaler here with Bank of America. You may proceed.

Craig Siegenthaler

Great. Thanks for taking the follow-up. I had a follow-up on the hedge fund prime commentary that you gave earlier in the call. Are you starting to win business more from larger hedge funds? Or is the growth mostly from kind of smaller funds where I believe most of your business sit? And also where are you stealing this share from within the prime industry. And also, can you just comment on -- in terms of how this is going to drive earnings growth longer term, just given the size differential?

Thomas Peterffy

So yes, almost all smaller hedge funds come to us now, as far as we believe. And larger hedge funds are beginning to look at us and they usually work with two, three, maybe even four different custodians or at least executing brokers. And these larger funds are talking to us more seriously and are giving us a little bit of their business. But we're very happy to take a little bit because we figured that as they begin to use us, they will see the advantages that we can offer relative to the custodian -- other custodians they are using.

Craig Siegenthaler

Thomas, and it sounds like, since you're very focused on growing this business. I believe that they're somewhat sensitive to the amount of capital you have. So maybe can you talk about when you'll feel more comfortable, I know probably not buying back stock just given the stock

liquidity, but maybe raising the dividend or returning more capital to shareholders just because I believe a lot of those hedge funds are sensitive to how much capital you have?

Thomas Peterffy

I completely agree with you, and we are not going to increase the dividend. We are just going to grow the capital.

Craig Siegenthaler

Thomas, thanks for taking my follow-ups.

Thomas Peterffy

Thank you.

Operator

Our next question comes from Ryan Bailey with Goldman Sachs. You may proceed.

Ryan Bailey

Hi, everyone. Paul, in the right guidance for a few quarters now, you've mentioned that the guidance is based on no change in strategy to take advantage of higher rates. I was wondering, is there a consideration to change some of the strategy around rate sensitivity?

Paul Brody

We don't have any immediate plans. We have stayed short-term, because of the uncertainty in the markets. And certainly, with rates going up, we're able to capture the upswing much quicker than had we been invested further out. If there wasn't a yield curve for a long time, it's sort of developing, but it's still only developing out through a year. So I think we're unlikely to make any meaningful changes there. Thomas, if you'd like to add anything to that, please feel free.

Thomas Peterffy

Yes, I'd like to point out that we pay our customer -- our interest on the idle cash of our customers more than anybody else that we know. And so we have -- we basically have had a 50 basis point spread that we earn on customers' idle cash. So that puts us into a position that -- where we have to be extremely careful about how we invest this cash, because when interest rates go up, we immediately raise the amount that we pay to our customers. So if we were to invest let's say, two years forward and suddenly interest rates went up, we would immediately have to increase the cash we pay out, but the amounts we take in would not increase immediately, right? So we cannot put ourselves into a position when we are very much mismatched.

Ryan Bailey

Understood. Maybe sort of taking that last point. I apologize if I missed it, but can you give us an update on where the sort of non-rate sensitive cash sits today, what that account looks like? And as we get through some of these introducing brokers, does that have any impact on what those cash balances could look like?

Thomas Peterffy

I don't know if any of you understand the question. Please answer it, I do not.

Paul Brody

So Ryan, you're asking about the fully sensitive balances?

Ryan Bailey

The other side of it. So the balances were, I think, it's below \$10,000 in cash per account that you're not paying rates on.

Paul Brody

Right. So that's certainly the bulk of it, and there are a few other categories there totaling about \$20 billion out of our total, which allows us to earn rate increases. And on the rest, we are locked into our spreads. So the net interest income increases will come from growing balances, but not from growing spreads.

Ryan Bailey

Understood. Okay, thank you.

Operator

Our next question comes from Chris Allen with Citi. You may proceed.

Chris Allen

I guess just following up a little bit on the introducing brokers, the ones that are coming over next year. Are these going to be fully disclosed or omnibus, I'm assuming fully disclosed, given the account impact?

Milan Galik

Yes. So they are going to be bringing us individual accounts. So it's going to be a structure with a master account at the top and lots of sub-accounts underneath. As to fully disclosed, it's not going to be a fully disclosed relationship, so the end client will not know unless they try to research it who the ultimate provider of the services is. They will have the contract with their introducing broker. But to answer your question most directly, it's going to be lots of accounts, not an omnibus.

Chris Allen

Understood. And just on the outlook for hedge funds moving up to number four. Is that some analysis that you've done? Or is this based on kind of industry stats. Just trying to understand, just to dig little deeper, it seems to be a real nice opportunity moving forward?

Thomas Peterffy

Yes, it's industry stats, and we see our -- the rate at which we're getting in new funds. We're doing very well getting in new funds currently.

Chris Allen

Got it. Thank you, guys. That's it from me.

Operator

Our next question comes from Daniel Fannon with Jefferies. You may proceed.

Daniel Fannon

Thanks. Thanks. I'm going to try this again. Can you hear me?

Thomas Peterffy

Yes.

Daniel Fannon

Great. So a question just on expenses came in a little bit better in this quarter and thinking about the fourth quarter and into next year, just the progression of spend, if there's -- as you bring on some of these larger introducing brokers, should we anticipate some additional expenses for that process and/or any change in priority as you think about spend into next year that you're contemplating at this point?

Milan Galik

So no, these introducing brokers are not -- can you hear me?

Daniel Fannon

Yes.

Milan Galik

These introducing brokers are not expecting to (technical difficulty) What I was going to say that we do not expect to hire a large number of people to service these i-brokers. Then we are going to use the technology that we have been developing over the past few decades to the extent that we have a very large number of subaccounts that we have to service. The number of customer service representatives will have to increase a little bit, but we expect the i-brokers to provide the customer service themselves.

On the compliance side, the situation is little different, because we are responsible for doing the surveillance of their money moves, as well as the trading activity. So there is going to be some number of surveillance analysts that we will have to hire. But that number of analysts would be required, whether we grow the number of accounts as direct accounts of our clients or i-broker clients.

Thomas Peterffy

And as far as expenses, I would like to add the fact that you are aware of the high rate of inflation and we have to increase our compensation in line with inflation rate.

Daniel Fannon

Great. And then just in terms of broadly account growth in the regions, you mentioned the subsegments of your customer base. Is it from a geographic perspective? Are there areas that you are having greater success? Or you're seeing more pullback understanding that broadly, as you said earlier, the sentiment isn't great for new account growth?

Thomas Peterffy

So yes, I mean Asia fell off the cliff about a year ago. And Europe joined soon after Russia went into the Ukraine. So yes, the slowdown is -- and as we go along, the European slowdown is becoming more and more apparent. And so in the United States, in the Americas in general, the slowdown is less apparent than in Europe and Asia.

Daniel Fannon

Great. Thank you.

Operator

Our next question comes from Kyle Voigt with KBW. You may proceed.

Kyle Voigt

Maybe just one for Paul, and sorry if this was addressed earlier, I dropped off. The other net interest income increased to \$65 million in the quarter. Was just the majority of that increase driven by higher interest on corporate cash balances? I know there is some other items in there, too, including the FDIC sweeps. So I just wanted to get some clarity there.

Paul Brody

Yes, that's right. It's primarily the corporate cash, which as you know, with rates near zero, was earning near zero. So therefore, we're now earning commensurate with the current benchmarks.

Kyle Voigt

Got it. And then the -- is there just any update you can give us on the percentage of your balances or is it just absolute level the cash balances that are -- or the credit balances that are non-rate sensitive or, I guess, non-interest bearing?

Paul Brody

Yes. Actually, we did mention that before. It's about \$20 billion out of the total.

Kyle Voigt

Okay, perfect. Thank you.

Paul Brody

That's a combination of fully rate-sensitive and partially rate sensitive.

Kyle Voigt

Perfect. Thank you. And then I just wanted to ask a clarification question regarding the introducing broker onboardings. I think last quarter, you mentioned several relationships that you expect to begin onboarding. And Thomas, I think you mentioned two large IBs specifically. I just wanted to clarify was there any potential introducing broker clients that decided not to move

forward with the relationship? Or is this just purely a timing issue and the pipeline hasn't changed at all in terms of number of clients?

Thomas Peterffy

There is no change in terms of number of clients.

Kyle Voigt

Okay, great. Thank you very much.

Operator

Our next question comes from Richard Repetto with Piper Sandler. You may proceed.

Richard Repetto

Yes. Hi, Thomas, I was just going to quickly follow-up. I know you're very conservative on the account growth. And if I just did the math and if the introducing brokers of 65% to 75% of your goal of 30% account growth overall. It just puts your -- I don't know what you would call it, organic account growth at numbers that certainly lower than what we've seen in the -- since the pandemic started. And I guess the question is, is that how you see the sort of a near-term year next year or two account growth slowing back to 2019 levels?

Thomas Peterffy

Yes. I think that because, as I said, I expect the market not to be very buoyant. So I think that individual clients are going to dry up more and more and more as we go into next year.

Richard Repetto

Got it. Understood. Thank you.

Operator

Thank you. And I'm not showing any further questions at this time. I would now like to turn the call back over to Nancy Stuebe for any further 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.