# Interactive Brokers Group's (IBKR)
# Q3 2023 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**

**Ben Budish,** *Barclays*

**Brennan Hawken,** *UBS*

**Chris Allen,** *Citi*

**Craig Siegenthaler,** *Bank of America Merrill Lynch*

**Daniel Fannon,** *Jefferies*

**James Yaro,** *Goldman Sachs*

**Kyle Voigt,** *KBW*

**Patrick Moley,** *Piper Sandler*

**Operator**

Good day, and thank you for standing by. Welcome to the Interactive Brokers Group Third Quarter 2023 Earnings Call. (Operator Instructions) I would now like to turn the conference over to your speaker for today, Nancy Stuebe. Please go ahead.

**Nancy Stuebe**

Good afternoon, and thank you for joining us for our third quarter 2023 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 the disclaimers in our press release. You should also review a description of risk factors contained in our financial reports filed with the SEC.

Our robust operating metrics once again translated into strong financial results this quarter. Our account growth remained strong at 21%, while our client equity was up 29%. Net interest income reached a record, as did our total adjusted net revenues, which were over $1 billion for the third consecutive quarter.

On the other hand, markets were down in nearly every country in the quarter, and trading volumes dropped. Low market volatility, customers moving to higher-priced stocks of companies with greater capitalization and overwhelming competitive strength, and a geopolitical environment that is increasingly uncertain, all led to lower DARTs.

This meant that while we were able to increase our commission revenue slightly, reaching its fourth highest level in our history, it is still the case that investors are holding onto the same seven equities and not trading others actively. However, options volumes continue to be strong and option commissions were up the most this quarter, then came futures, while stock commission revenue dropped.

As I’ve said previously, I do not expect this situation to reverse.

There are several competing cross-currents in the markets. If you are a long-term investor, and looking 10 years out, what you want most is stability, and not to lose a lot of money. You want to put your assets in a politically, currency- and inflation-wise stable place.

While historically that has been the US, the US will look less stable politically as the election approaches, and inflation will look worse because of wage increases and union issues as well as the increasing cost of carrying US government debt. As apparent US political stability weakens, people are less likely to invest in equities.

On the other hand, there is the tax liability for US taxpayers on substantially appreciated stock prices, should that gain be realized.

This background explains what we have been seeing lately in the markets. Our customers' top stock holdings, the Magnificent Seven, hasn't changed much but corresponding options activity has increased. In addition, we are seeing more and more investors getting into US treasuries. Generally, activity on our government and corporate bond platform has picked up appreciably.

We do not see inflation coming down substantially, and still see interest rates staying at elevated levels for a long time, which will in turn increase spending to pay the interest on this debt, adding to inflationary pressures.

It remains the case that investors globally are looking to the markets to stay ahead of inflation and uncertainty. More people want to invest in securities markets, hold their choice of currency in their accounts, and gain exposure to different countries, particularly the US, as a way to build wealth and security.

We continue to advertise, and closely watch which outlets work the best for us. We have built an automated advertising system, where we measure the yield and use an algorithm to adjust spending on each channel where we advertise. Telling everyone about our 4.83% return on immediately available qualified cash may have prevented withdrawals but it barely helped to increase customer cash which grew only by a little more than 2% from the prior year.

In terms of our client segments, our strongest ones for account growth have been individuals and proprietary traders, which have also shown the strongest growth in 12-month commission revenue, while financial advisors, individuals and introducing brokers have seen the strongest growth in net interest income. Geographically, Europe has seen the fastest account growth, followed by Asia, then the Americas.

I would like to talk about our introducing broker segment. I spoke of two large accounts coming. I regret that now, because the timing of these accounts is out of our control and with the larger of the two, it is difficult to put an exact time on it. But we have so much else going on, that I feel it is a disservice to focus only on “When? When? When?” for this 1 client, when we have so many other promising items lined up.

First, the smaller of the two i-brokers successfully began onboarding their approximately 52,000 accounts; so far more than half of them are with us, and we expect the bulk of the rest by the end of the year.

Next, a couple of other introducing brokers are joining us. All this is to say – when that “other” i-broker starts to onboard, I will let you know. Until then, I cannot put a date on it – I have been wrong on the date for a while now, so it is unclear to me why you would want me to keep giving one!

But unfortunately, it is not only the date I have been wrong on. I have also misestimated the size of these operations. They now, both appear to be smaller than I originally expected and accordingly, I need to reduce my estimate of long term account growth from 30% to the low 20% area.

On the hedge fund side, the most recent Preqin statistics show us moving into the number 5 position in terms of number of hedge funds for which we serve as prime broker. We were once again the fastest-growing of the top prime brokers this year. We plan to be #4 next year, behind only Goldman Sachs, Morgan Stanley, and JP Morgan.

Our developers have been extremely busy with new products and tools, and have a full plate for the remainder of the year. This quarter, we:

- Introduced fractional shares trading for Canadian stocks and ETFs;
- Launched a Securities Lending dashboard for our more sophisticated clients to be able to assess short selling activity for specific securities and inform their decision-making;

- Introduced the next-generation IBKR Desktop trading platform;
- Launched the “Discover” tool, to help clients find opportunities based on their own customized settings and trading preferences;
- Started our “Cents of Security” podcast, designed to help improve financial literacy for newer investors; and
- Introduced long-term investment accounts in Hungary.

We remain very optimistic about what our business model – international market access, a strong and secure balance sheet, and multiple features and tools, all at low prices with high interest paid on cash balances – offers to clients and potential clients around the world.

In an increasingly uncertain world, the greater degrees of freedom our clients have to manage their portfolios as they wish, the better their ability to educate themselves as events change and economies increasingly fluctuate and diverge, the better off they will be.

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**

Welcome, everyone, to the call. As usual, starting with our Revenue items on page 3 of the release, we followed on our strong first and second quarter performances with net revenues reaching over $1.1 billion. With ongoing customer account and balance sheet growth, we continue to build a strong base for revenue growth in the future.

Commissions were $333 million, up 4% from the year-ago quarter despite industry-wide declines in equities volume. Our options volumes, in particular, came in at a quarterly high, doubling the pace of industry volume growth. Stock share volumes declined from last year’s quarter, once again driven by a drop in trading of lower-priced stocks, but also reflective of lower industry volumes.

Net interest income was a quarterly record $733 million, reflecting higher interest on margin loans and segregated cash. These gains were partially offset by the higher interest we paid on customer credit balances, as our longstanding policy is to pass through rate hikes above 50 basis points to our customers on their qualified funds.

Other fees and services generated $52 million, with the biggest contributors being market data fee revenue of $17 million, risk exposure fee revenue of $13 million, and options exchange liquidity payments of $8 million. The $8 million overall increase in risk exposure fees from the prior year quarter was driven by more risk-on positioning of customers.

Other income was $27 million and 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 $20 million for the quarter.

Turning to expenses, Execution, Clearing & Distribution costs rose 14% versus last year, led by higher volumes in options, which carry higher fees than equities.

We measure the profitability of our commissions by looking at Gross Transactional Profit, which is Commission revenue less Execution & Clearing costs. This measure excludes market data expense, which is a pass-through. In the third quarter, Execution & Clearing costs were 23% of commission revenue, for a Gross Transactional Profit margin of 77%.

Compensation & Benefits expense rose 14% over the prior year quarter, on a combination of a 5% increase in average headcount and also on inflation. Compensation & Benefits expense was 11% of our adjusted Net Revenues, versus 13% last year, and below its historical level. Our headcount at quarter-end was 2,927.

G&A expenses returned to a more typical level this quarter after we recorded a reserve in the second quarter for regulatory matters, which have since been settled. Versus the prior year-quarter, increases were related to advertising and legal expenses, partially offset by a reduction in consulting fees.

Our adjusted pretax margin was 73%, up from 68% in the year-ago quarter.

Income tax expense of $68 million reflects the sum of the public company's $36 million and the operating companies' $32 million.

Moving to our balance sheet on page 5 of our release, our total assets were $121 billion at the end of the quarter, with growth over last year driven primarily by increases in our margin lending and securities lending businesses.

We maintain a balance sheet aimed at supporting our growing businesses and providing ample financial resources during volatile markets, with maximum flexibility and short-term liquidity.

We have no long-term debt and the duration of our U.S. investment portfolio at September 30$^{th}$ was 26 days.

In our operating data, on pages 6 and 7, our contract volumes for all customers were strong, with options reaching their highest quarterly level, up 18% from a year ago. Futures contract volumes were down slightly, in line with industry volumes. And in stocks, the drop off of 22% was largely attributable to investors moving to higher quality stocks, as trading in pink sheet and other very low-priced stocks declined the most.

On page 7, you can see that our account growth remains robust, with over 140,000 net account adds in the quarter and total accounts at 2.4 million, up 21% over the prior year.

Total Customer DARTs were 1.9 million trades per day, down slightly from the prior-year quarter.

Our Cleared IBKR Pro Customers paid an average of $3.11 Commission per Cleared Commissionable Order, up 5% from last year as our clients' volume mix included higher per order contributions from options and futures.

Page 8 presents our Net Interest Margin numbers. Total GAAP net interest income rose 55% to $733 million from the year-ago quarter, reflecting stronger earnings on segregated cash and margin loans, partially offset by higher interest expense on customer cash balances. With one more 25 basis point hike in the latest quarter, the average Federal funds rate was over 300 basis points higher this year than last.

Many other central banks also raised rates this quarter. This group includes the UK, Canada, Hong Kong and the Eurozone.

Net interest earned on segregated cash was $728 million, up $500 million from last year, primarily from global rate hikes. Maintaining a short duration on our invested funds continued to allow us to closely match asset and liability maturities and pick up benchmark rate increases quickly. As I said, at September 30th, our US portfolio duration was 26 days, so the investments have rolled over into new, higher rates with a fairly short lag time. A 5% increase over the year-ago quarter in average segregated cash and securities balances also helped drive interest income higher.

Margin loan interest rose to $623 million, nearly doubling the prior year quarter, despite average margin loan balances rising only slightly. Higher rates, in the US and internationally, have driven higher margin interest income.

Securities lending net interest was $66 million, down from the year-ago quarter due both to lighter overall demand for so-called "hard-to-borrow" stocks, and to a rate dynamic we have noted previously: namely, as benchmark rates rise, a greater portion of the revenue generated by lending securities, for which we receive cash collateral that we invest as segregated funds, is categorized as interest on Segregated Cash. We estimate this impact to be about $28 million for the quarter vs last year. In other words, without this shift in reporting line items, net interest from securities lending would have been $94 million, versus $114 million in 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 balances as we pass through rate increases. We paid $832 million to our customers on their balances in the third quarter.

Fully rate sensitive balances were up about 5% from the second quarter, at $21 billion.

We consider our policy offering clients a full pass-through of all rate hikes after the first 50 basis points on their qualified cash a significant component in our success, and one that continues to set us apart.

We believe this leads to clients choosing to keep their cash with us, especially active clients who do not want to use sweep programs that prevent them from immediately accessing their cash to invest.

Now, for our estimates of the impact of increases in rates—increases and decreases. Given market expectations of near-term rate hikes and further out rate reductions, we estimate the effects of both increases and decreases in the Fed Funds rate on our net interest income. We estimate increases in the Fed Funds rate to produce additional annual net interest income of approximately $56 million for each 25 basis point increase in the benchmark. Symmetrically, decreases in the Fed Funds rate should reduce annual net interest income by approximately $56 million for each 25 basis point decrease in the benchmark.

Note that our starting point for these estimates is September 30th, with the Fed Funds effective rate at 5.33%, and based on balances at that date.

About 25% of our customer cash balances is not in US dollars, so estimates of US rate change effects exclude those currencies. We estimate increases in all the relevant non-USD benchmark rates to produce additional annual net interest income of approximately $20 million for each 25 basis point increase in the benchmarks.

In conclusion, the company performed well in the third quarter in a complex and uncertain environment, reflecting our continued ability to grow our customer base and deliver our core services to customers, at low costs and competitive interest rates, as we manage the business effectively with strong controls over risk and operating expenses.

And with that, we will turn it over to our moderator and happy to take questions.

## Question and Answer Session

**Operator**

(Operator Instructions) Our first question today will be coming from Craig Siegenthaler of Bank of America.

**Craig Siegenthaler**

With equity now over $13 billion, we wanted to get your updated thoughts on the potential usage for deployments, either returning capital to shareholders via a dividend increase or special dividend or even through M&A. And I think you just talked up the prospects of M&A at a competitor conference last month. So maybe refresh us on that topic, please.

**Thomas Peterffy**

So we have looked at 2 specific opportunities, neither one of them have worked out. They wanted a higher price than—no, actually, in one case, the target wanted more than we were willing to pay. And in the other case, they were not interested in doing anything. And since they have very strong voting power, there is nothing we can do. But we keep on looking. So if anybody hears of anything, please let us know.

**Craig Siegenthaler**

And Thomas, also on the dividend, too, please.

**Thomas Peterffy**

We are not looking to increase the dividend. We are looking to increase the amount of money we have because it gives us greater— it gives our clients a greater sense of security. And as you have heard, we are hoping to get larger and larger investors to come with us and that security cushion is very important to them, especially since we are not a systematically important counterparty.

**Craig Siegenthaler**

Great. And I think, Thomas, do I get a follow-up? Or is it just one?

**Thomas Peterffy**

As far as I'm concerned, go ahead.

**Craig Siegenthaler**

All right. Great. So my second one is on the expense side. Employee comp and benefits down about $9 million sequentially. So any comment on that? And is this a good run rate to work on for next quarter? And I think you also consolidated some European offices in the quarter. So I don't know if that benefited this quarter or if that's going to benefit a future quarter?

**Paul Brody**

Right. So Craig, we mentioned last quarter that there was an odd accounting requirement that we measure vacation days taken by employees around the world every quarter. And we accrue them at a certain rate, and then we subtract the days taken, and we have to take an expense for the difference. That tends to build up in the second quarter and then go back down in the third quarter as people take vacation over the summer. It only seems obvious to many of us.

We have— so that unfortunately generates a little bit of quarter-to-quarter noise. We've done some research into this and determined that we can measure this annually instead of quarterly. Sort of anticipating that it does go up and down and employees do, in fact, take their vacations annually. And by the end of the year, it's mostly even again. So we're going to adopt that next year, starting with 2024 and you should stop seeing the quarter-to-quarter variations. And that accounted for $4-$5 million of the change upside and then downside— upside in the second quarter, downside in the third quarter.

As far as consolidating offices or rather merging operations in Europe, we would not expect that to have a material impact. It's primarily driven by our desire to simplify our regulatory environment by having 1 regulator instead of 2, not driven by rationalizing the staff, as they say.

**Milan Galik**

Let me clarify that a little bit. So your question was whether we are already seeing the benefits in the numbers of the consolidation. And the answer to that is no. The migration of the accounts to our Irish entity, as well as consolidation of the 2 entities into 1, is going to take anywhere between 6 and 9 months.

At first, we are going to see a restructuring charge as we migrate the accounts to Ireland. We're going to be paying into an insurance fund. But after that, we are expecting to see the benefit of $7 million or so dollars per year that is direct cost savings aside from reduced distraction that we have to suffer because we have to pay attention to 2 European entities as opposed to 1. So the $7 million is a direct benefit, plus there are significant benefits by reducing the distraction and being able to focus on fewer entities.

**Operator**

And our next question will be coming from Benjamin Budish of Barclays.

**Ben Budish**

Thomas, I wanted to ask if you could maybe clarify the sort of long-term account guidance you talked about. I think earlier last month at a presentation, you talked about sort of moving away from the 30% target to like a 20% plus. I'm just wondering how much of today's commentary is different from that? Is it sort of because you have less clarity around the timing of the i-broker accounts that you talked about before? Or is it sort of more of a material change in your longer-term outlook?

**Thomas Peterffy**

Well, no. I mean what happened was that initially, when these 2 introducing brokers came on the scene, I thought that they were both having more customers than they, in fact, do and that is aside of the fact that it is extremely cumbersome and a lengthy process to onboard the second one.

Generally, I thought I went too far in guessing and saying, yes, I think that it's going to be 30%. I just have to come back and hands up to— that now I realize that I really don't know. I mean the fact is that we don't see into the future, and there is no big clock out there that tells me what it's going to be, right?

So it remains a guess, but I think that I'd rather give you a more conservative guess, and I'm comfortable with 20%, 22%, 23%, 24%, maybe even 25%, but somewhere in the 20% to 25% range, I feel more comfortable.

**Ben Budish**

Got it. Well, I really appreciate the candor there. Maybe a follow-up on the options activity. Just curious if you can give any more color on like what the breakout of that is? Is it more opportunity outside the U.S.? Is it the shorter dated pieces? Is it your hedge fund clients or the retail clients? What are the key drivers of that?

And just thinking about as we have kind of seen options activity grow over the last several years. How much more room do you think there is to go kind of based on all those pieces that you see?

**Thomas Peterffy**

So I think that options activity has a tremendous future because what has been going on in the United States, as you well know, is generally followed by other places around the world with a lag of 10, 20, 30 years. And so we see more and more interest outside of the United States, and we also—there is now options trading overnight. So it's basically 24 hours a day, even though overnight, is still very little volume, but it's catching on. And I see a world in 5 to 10 years from now when options volume will be the same 24 hours, no matter what time of the day you're looking at it.

And it is also true that, yes, short-term dated options, the larger—the largest volume is in zero day options. And that's just what's happening.

**Operator**

And our next question will be coming from Patrick Moley of Piper Sandler.

**Patrick Moley**

Congrats on a strong quarter. So maybe just diving back into Ben's question. Can you maybe hammer in on the trend you're seeing in the 0DTE piece and maybe the flow buildout...

**Thomas Peterffy**

Hold it. Please, hold it. We do not understand your words. So it comes across very garbled. Could you please move whatever you're talking into further away from yourself?

**Patrick Moley**

Yes, sure. So just was hoping we could maybe dive back into the 0DTE piece. Can you talk a little bit more about the breakout that you're seeing there, the flow between institutional and retail and the sustainability there and maybe what it means for growth going forward.

**Thomas Peterffy**

Well, between institutional and retail, I never quite understood how to categorize something into institutional versus retail. So when the account is opened in the name of an entity rather than a person, we call that institutional. Now as you know, introducing brokers are entities. So even though there are individuals at the other end of the process, so I cannot tell you the breakout between what's institutional, and what's retail. But there are certainly many, many trading shops that I assume basically are institutional who trade a lot of options.

**Milan Galik**

Maybe I can give you a little bit of color. Perhaps it's going to be helpful. The way we participate, and our customers participate in these zero-day options— expiring options - is that we often send the customer orders into price improvement auctions.

Now that requires that we first find liquidity for the customer’s order from one of the market makers, one of the institutions that we are connected to. So a lot of the trading we do in these zero-day options, we have an institution on one side and a customer on the other side. It's not obviously 100% of the volume, but it's quite a bit of it. So in short, it's mixed participation.

**Operator**

Our next question today will be coming from Brennan Hawken of UBS.

**Brennan Hawken**

I'd actually like to follow up on that 0DTE and try and get some color from a different perspective. You mentioned that it was a material part of the option volume. Could you give some more specific color around what proportion 0DTE represents today versus maybe a year ago? And when you think about...

**Thomas Peterffy**

We do not measure that.

**Brennan Hawken**

Okay. Well, then that's straightforward. Maybe shifting to your perspective, Thomas. When you think about this product and its maturity, what inning do you think we are in its emergence and in its growth?

**Thomas Peterffy**

I think it takes— I would guess. Again, I'm just guessing. I mean I don't have anything more than anybody else does. I'm guessing that the relative proportion of zero-date and very short date options is going to probably remain the same, but overall option volume will keep increasing. And I think that it's probably going to increase by 5% to 10% a year going forward indefinitely.

**Brennan Hawken**

That's overall option volume?

**Thomas Peterffy**

Yes.

**Milan Galik**

And there is one interesting thing, if I could add. There is one interesting thing happening in Europe. The European exchanges were obviously observing this phenomenon in the United States with envy, and they are going to be listing zero-day options or 5-day options that are listed every day. So every day you will have an expiring option in cash-settled index options, and that's what they really are. So we will see some of the same phenomenon over time outside of the United States.

**Thomas Peterffy**

That is true, but European option volume— option volume on European exchanges is very, very tiny percentage of the total.

**Milan Galik**

Indeed.

**Brennan Hawken**

We'll see what envy can get us on that front. I'd like to— and I totally appreciate that this is really sort of challenging to nail down. But when you were answering the prior question about the introducing broker, Thomas, sort of a couple of other questions jump to mind. You mentioned that the— your sense of the size of one of the introducing brokers has changed. It's not as large as you thought. Was that—I was kind of curious about what might cause that. Was that because maybe they aren't growing as fast as you had thought when you initially started to talk to them or that maybe the opportunity set to move a portion of their business over to Interactive is going to be just smaller than you had initially guessed?

**Thomas Peterffy**

To be quite frank, I was so enthusiastic when they first showed up on the scene, I estimated that they would have several million accounts. And now it turns out that they probably have hundreds of thousands of accounts.

**Milan Galik**

Well, maybe a little bit different color. So what remains the same is the institution that we're talking about is one of the top multinational banks in the world by assets. So that remains the same. What we have learned recently is that instead of them bringing over a large chunk of the accounts that would be migrated from one broker to another, that's not what we're going to see. We're going to see very little of that.

What the hope is, is that a lot of the banking clients of these global institutions are going to become self-directed investors on the platform this bank is integrating with us. So that's what really is changing. They are having hopes of turning their banking clients into brokerage clients.

**Operator**

Our next question will be coming from Daniel Fannon of Jefferies.

**Daniel Fannon**

Another question just on the account growth. I think, Thomas, you mentioned other introducing brokers that have signed up. Could you maybe talk to the discussions and/or the backlog of what might be smaller or the pipeline of how you were thinking about the broader introducing broker opportunity?

**Thomas Peterffy**

So there are several banks and brokerage firms around the world that have a relatively small customer base— it doesn't pay for them to develop the technology that's necessary to compete in this world today. So they are relatively easy to get onto our platform. And with our very automated platform, we hope that they will grow very quickly and other firms— other similar firms, seeing their situation, will either come along also or will drop out of the business. That's what I see.

**Daniel Fannon**

Okay. And then I wanted to follow up on the conversation or topic of M&A. We— you have not been an acquirer previously. So could you talk to what it is you're looking for, how we should think about the return profile or accretion or economic kind of thresholds that you have for doing a transaction?

**Thomas Peterffy**

So we believe that by far, we have the most efficient operation and our technology is by far the best. So it would make sense that other firms that have less—that are less automated - would benefit— I mean their overall daily operation would benefit coming onto our platform. So that would be the basic idea.

**Milan Galik**

One additional strength that we have compared to the other players in this space is that we are global in terms of accessing the markets. So when an Asian or European institution integrates with us, they can serve not only access to the U.S. markets, but to their local markets as well.

**Daniel Fannon**

And just a follow-up. Is there—from a size or capacity, I mean is there a limit like in terms of what you're looking at? Are these small acquisition— small potential targets? Is it— just trying to get a sense of how big to think about what type of M&A you would be contemplating.

**Milan Galik**

It all depends, right? So what we would obviously be looking at is what is the opportunity. Is it an institution that has relatively little automation and we can jump in and generate a lot of cost savings by automating the operations. Is it a large number of active accounts that they have. It all depends.

So when we are presented with an opportunity, we look at the economics. We have usually a couple of ideas of how we would go about the integration. What is it that we would be looking for in the final outcome, and that determines the price we're willing to pay. Unfortunately, in one of the two cases that Thomas mentioned, we were short of the price that the seller was demanding. They haven't sold yet. They may come back to us, but it's unclear whether they will.

**Operator**

Our next question will be coming from Chris Allen of Citi.

**Chris Allen**

One thing we've been watching is margin balances have been trending up nicely, even in September when the markets were down. And you noted the strength and interest income being driven by financial advisers and hedge funds earlier. On the financial adviser front, are you seeing any benefit from the Schwab-Ameritrade integration that's going on right now? On the hedge fund side, are you— is the existing hedge fund client base expanding in size? Are you winning new hedge fund clients?

**Thomas Peterffy**

Well, there are certainly— our salespeople speak a lot about the unhappiness of especially Ameritrade clients that had to go over to Schwab on the one hand. On the other, about Ameritrade clients who were Ameritrade clients in addition to Schwab clients because those clients wanted to have two independent brokerage firms and now that they are only one, they are looking for a second. So these are the two types of clients we are getting from this merger.

Now your second question was about the hedge funds, what did you actually ask?

**Chris Allen**

Yes. Just wanted to know on the hedge fund size, are you seeing new hedge fund wins or the existing customer base...

**Thomas Peterffy**

Definitely. Yes. We definitely see new hedge fund wins, yes. They tend—on balance to be smaller funds in the $10 million to $50 million range, and so we get them regularly and quite often.

**Chris Allen**

And just a quick follow-up on the M&A discussion. Are you looking at domestic opportunities, overseas, both? Basically what you do see out there?

**Thomas Peterffy**

It doesn't matter to us. We’re going either way. We're happy to; we don't care whether it's US or outside.

**Operator**

Our next question will be coming from James Yaro of Goldman Sachs.

**James Yaro**

It's James Yaro. I think it's quite clear today what the opportunity is in terms of retail trading in Asia. But I think retail trading remains somewhat more subdued in Europe. You are investing in Europe clearly. So maybe you can just speak to your outlook for whether retail trading in Europe will accelerate and potentially over time, look more like what we see in the US and what gives you that sort of confidence?

**Thomas Peterffy**

Generally, I think that, as you know, the United States is basically the hot seat of capitalism and has a history of 200 years, right? In Europe, it has a somewhat longer history, but much more subdued history.

So in Europe, traditionally people who invest in the stock market were a very small layer of society. And we expect that, that will expand just like it has expanded in the United States. On the other hand, the average European person has only about 60% to 70% of the funds that the average American person has.

**James Yaro**

Okay. That's very clear. And then if we were to potentially see Fed funds start to come down, and I'm not saying that's going to happen imminently. But just— maybe you could just speak to...

**Thomas Peterffy**

Sorry for the laugh. No. I believe that Fed funds will remain in the 5% range indefinitely for the very, very long term. They may come down to 4%, but then they will come up because there is nothing you can do about the ever increasing debt payments. So Fed funds will go to 5%, 6%, 7%, 8%, 10%, 20%, 30%, 40%, 50% until we go into the hole.

**James Yaro**

Okay. But the market forward curve obviously has cuts. So just— you obviously manage risks very well, Thomas. So I just want to understand how you think about let's say there's downside risk and rates do come down. How do you think about hedging that, if at all? Do you extend securities duration or do you need to do something else?

**Thomas Peterffy**

If forward rates go above nearby rates, we may go out forward. But as long as nearby rates are higher, we will not do so.

**Operator**

Our next question will be coming from Kyle Voigt of KBW.

**Kyle Voigt**

Thomas, maybe the first one is for you. Just on your automatic share sale plan. I think that's been paused for most of 2023. Can you just kind of provide an update there on any plans to convert and sell shares? And also just remind us...

**Thomas Peterffy**

I have a number of—a large number of shares that I have converted. I constantly and always have a sales program on file, and I have a target price, which is 20% under what I believe the fair price for the stock would be. We have not reached that point yet. So when we will, you will see sales from me.

**Kyle Voigt**

Understood. And that's all automatically set in the— this year's plan.

**Thomas Peterffy**

That's right.

**Kyle Voigt**

Understood. The second question is just on the expenses. Last quarter, you spoke about some of the very recent challenges you were seeing in hiring technology talent. Just wondering if you could provide an update there on the market for talent. Are you still seeing the same inflationary pressures that you spoke about last quarter? And how is your hiring plan progressing in 2023 at 5% head count growth versus where you expected it to be when this year started?

**Milan Galik**

So we do not think about hiring in terms of budgeting the number of people that we have to hire in a particular year. It's much more short term than that. We always know the projects that we are currently working on, the projects that we have, that we would like to work on. We see how many people we need in various groups. There is obviously some amount of attrition that we have to deal with. And these are the factors that determine when we approve a new position and we go to the market and try to hire them.

Recently, we have not had great difficulty finding people at the prices we thought that we would find them. So there is a little bit less competition for the talent compared to last year. But good technologists, the really good technologists are still hard to find and you have to pay up for them.

**Kyle Voigt**

Understood. And if I could just sneak one in at the end of the call here for Paul. Other income, I think, on an adjusted basis, was at $20 million. It was the highest in quite some time. Just wondering if you could provide any color on kind of what drove that line and what— if that's a good run rate or we should think about it kind of reverting lower from here?

**Paul Brody**

So it's always difficult to talk about run rate on other income because the primary components are our currency diversification strategy, which obviously fluctuates with the dollar. And we have some other— we have some investments, a few substantial investments that also produced some variability. So in this quarter, it's not that hard to do the math. On our currency diversification, we lost about $17 million, and we made back $20-something million on investments.

So the net of the whole thing was— I mean, together with other normal things, we still have small trading activities and so forth. So we look at other income of $27 million, but mostly that was because we had a non-repeat of last year's $40 million loss on the currency. They produce a lot of noise, which is why we exclude them when we report our non-GAAP numbers.

**Operator**

Thank you. This concludes today's Q&A session. I would like to turn the call back over to Nancy Stuebe for closing remarks. Please go ahead.

**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 all for joining today's conference call. You may all disconnect. And everyone, enjoy the rest of your evening.